

**HILL COLLEGE**

**Annual Financial Report**

**For the Fiscal Year Ended**

**August 31, 2019**

**HILL COLLEGE**  
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**HILL COLLEGE**  
**ORGANIZATIONAL DATA**  
**For the Fiscal Year 2018 - 2019**

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**BOARD OF REGENTS**

**Officers**

David Teel	President
Bill Galiga	Vice-President
Karen Brackin	Secretary

**Members**

		<u>Term Expires</u>
Dr. William Auvenshine	Hillsboro, Texas	2024
Karen Brackin	Itasca, Texas	2024
Charles Bryant	Covington, Texas	2020
Kent Eubank	Whitney, Texas	2020
Bill Galiga	Hillsboro, Texas	2022
Dr. Allen Lane	Whitney, Texas	2024
Jolene Lehmann	Bynum, Texas	2020
Dwight Lloyd	Itasca, Texas	2022
Tony Marley	Hillsboro, Texas	2020
Jennifer Nowlin	Whitney, Texas	2022
Rick Sullins	Abbott, Texas	2024
David Teel	Hillsboro, Texas	2022

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**PRINCIPAL ADMINISTRATIVE OFFICERS**

Dr. Pam Boehm	President
Jessyca Brown	Vice-President of External Affairs
Billy Don Curbo	Vice-President of Administrative Services
Dr. Kerry Schindler	Vice-President of Instruction
Lizza Trenkle	Vice-President of Student Services
Jessie White	Vice-President of Information Technology
Debbie Gerik	Dean of Financial Services
Michael Johnson	Dean of Students, JCC
Dr. Kayla Kelly	Dean of Instruction, Career and Technical Education
Nancy McKenzie	Dean of Academic Pathways
Lori Moseley	Dean of Instruction, Health and Public Services
Scott Nalley	Dean of Students
Stephen Pape	Dean of Continuing Education
John Versluis	Dean, Texas Heritage Museum



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CERTIFIED PUBLIC ACCOUNTANTS

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American Institute & Texas Society of  
Certified Public Accountants*

## INDEPENDENT AUDITORS' REPORT

Board of Regents  
Hill College  
Hillsboro, Texas

### Report on the Financial Statements

We have audited the accompanying financial statements of Hill College, (the College) as of and for the years ended August 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the

## INDEPENDENT AUDITORS' REPORT (CONTINUED)

overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Hill College as of August 31, 2019, and 2018, and the respective changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Other Matters

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents and the Schedule of College's Share of Net Pension Liability, the Schedule of College's Contributions for Pensions, the Schedule of College's Share of Net OPEB Liability, and the Schedule of College's Contributions for OPEB as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the College's basic financial statements. The supplemental schedules (schedules A through D), as described in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards (schedule E) and schedule of expenditures of state awards (schedule F) are presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the State of Texas Single Audit Circular, and are also not a required part of the basic financial statements.

The supplemental schedules, the schedule of expenditures of federal awards and the schedule of expenditures of state awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial

## INDEPENDENT AUDITORS' REPORT (CONTINUED)

statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

### Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2019, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Jett, Vernon & Co., P.C." in a cursive style.

Temple, Texas  
December 20, 2019

## Management's Discussion and Analysis

This section of Hill College's annual financial report presents management's discussion and analysis of the financial performance of the College during the fiscal year ended August 31, 2019. This annual report contains financial statements which are in conformance with Governmental Accounting Standards Board (GASB). There are three financial statements presented: the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows. The following summary and management's discussion and analysis is intended to provide readers with an overview of the basic financial statements. This discussion should be read in conjunction with the accompanying financial statements, notes to the financial statements, and supplemental information.

Management has prepared the financial statements and the related footnote disclosures along with the discussion and analysis. The College adopted GASB No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB No. 27*, and GASB No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB No. 68* effective September 1, 2014. With the adoption of GASB No. 68, the College recognized a net pension liability in the statement of net position for its proportionate share of participation in the Teacher Retirement System of Texas defined benefit pension plan. With the adoption of GASB No. 71, the College recognized deferred outflows of resources in the statement of net position for contributions made to this defined benefit pension plan after the measurement date (August 31, 2014). The cumulative effect of these changes in accounting principles decreased unrestricted net position by \$2,747,707 at September 1, 2014. For additional information on accounting policy refer to Notes 1 and 2 in the "Notes to the Financial Statements".

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* was issued in June 2015 and amended GASB Statement No. 45. It became effective for governmental financial statements of employers for fiscal years beginning after June 15, 2017. Together these statements define how Other Postemployment Benefit (OPEB) liabilities are calculated by plans and reported by employers and other non-employer contributing entities who prepare financial statements in accordance with Generally Accepted Accounting Principles (GAAP). An employer's proportion is a measure of the proportionate relationship of (1) the employer to (2) all employers and all non-employer contributing entities. The basis for the employer's proportion should be consistent with the manner in which contributions to the OPEB plan are determined. TRS has determined that using one year of historical contributions is the best representation of this requirement.

Financial statements for the College's component unit, Hill College Foundation (the Foundation), are issued independently of the College. The Foundation's financial information is included in the College's annual report as a discrete component unit (see table of contents). More details on the Foundation are in Note 21 in the Notes to the Financial Statements.

**Statement of Financial Position of Unrestricted Net Position, Exclusive of Plant Assets and Plant-Related Debt**

	<u>2019</u>	<u>2018</u>	<u>2017</u>
<b>Assets:</b>			
Current Assets	\$ 18,495,308	\$ 17,317,893	\$ 17,818,307
Capital Assets	25,845,404	26,579,610	27,283,093
Other Noncurrent Assets	1,896,735	1,864,843	1,877,613
<b>Total Assets</b>	<u>\$ 46,237,447</u>	<u>\$ 45,762,346</u>	<u>\$ 46,979,013</u>
<b>Deferred Outflows of Resources:</b>			
Deferred Outflows Related to Pensions	\$ 2,236,711	\$ 861,782	\$ 862,058
Deferred Outflows Related to OPEB	4,464,204	278,754	-
<b>Total Deferred Outflows of Resources</b>	<u>6,700,915</u>	<u>1,140,536</u>	<u>862,058</u>
<b>Liabilities:</b>			
Current Liabilities	\$ 6,113,633	\$ 6,330,926	\$ 8,017,743
Noncurrent Liabilities	16,518,494	12,442,607	3,182,107
<b>Total Liabilities</b>	<u>\$ 22,632,127</u>	<u>\$ 18,773,533</u>	<u>\$ 11,199,850</u>
<b>Deferred Inflows of Resources:</b>			
Deferred Inflows Related to Pensions	\$ 794,826	\$ 1,162,280	\$ 983,911
Deferred Inflows Related to OPEB	4,810,972	2,228,274	-
<b>Total Deferred Inflows of Resources</b>	<u>5,605,798</u>	<u>3,390,554</u>	<u>983,911</u>
<b>Net Position:</b>			
Invested in Capital Assets, Net of Related Debt	\$ 25,845,404	\$ 26,096,396	\$ 26,258,093
Restricted-nonexpendable	1,726,972	1,688,740	1,655,808
Restricted-expendable	(37,815)	151,902	1,160,911
Unrestricted	<u>(2,834,124)</u>	<u>(3,198,243)</u>	<u>6,582,498</u>
<b>Total Net Position</b>	<u>\$ 24,700,437</u>	<u>\$ 24,738,795</u>	<u>\$ 35,657,310</u>
<b>GASB 68 and 75 Impact on Net Position:</b>			
<b>Total Net Position</b>	\$ 24,700,437	\$ 24,738,795	\$ 35,657,310
Deferred Outflows Related to Pensions	(2,236,711)	(861,782)	(862,058)
Deferred Outflows Related to OPEB	(4,464,204)	(278,754)	-
Deferred Inflows Related to Pensions	794,826	1,162,280	983,911
Deferred Inflows Related to OPEB	4,810,972	2,228,274	-
Net Pension Liability	4,196,185	2,325,245	2,611,232
Net OPEB Liability	12,246,559	10,026,773	-
Net OPEB Liability-Current Portion	<u>182,834</u>	<u>51,136</u>	<u>-</u>
<b>Total Impact of GASB 68 &amp; 75</b>	<u>15,530,461</u>	<u>14,653,172</u>	<u>2,733,085</u>
<b>Net Position Net of GASB 68 &amp; 75 Impact</b>	<u>40,230,898</u>	<u>39,391,967</u>	<u>38,390,395</u>
Less:			
Invested in Capital Assets, Net of Related Debt	25,845,404	26,096,396	26,258,093
Restricted-nonexpendable	1,726,972	1,688,740	1,655,808
Restricted-expendable	(37,815)	151,902	1,160,911
<b>Unrestricted Net Position, Exclusive of Plant Assets and Plant-Related Debt</b>	<u>12,696,337</u>	<u>11,454,929</u>	<u>9,315,583</u>

Changes in the “Statement of Unrestricted Net Position, Exclusive of Plant Assets and Plant-Related Debt” are derived from the activity reported in the “Statement of Revenues, Expenses, and Changes in Net Position”. This statement is intended to give its readers an indication of the institution’s financial condition at a given point in time, for example at year’s end.

Net Position is divided into three major categories. The first category, “Invested in Capital Assets Net of Related Debt,” represents the College’s equity in property, plant and equipment owned by the institution. The next category “Restricted” is further divided into two categories: Nonexpendable and Expendable. Nonexpendable is derived from Grants and Endowments. Expendable is available for expenditures but must be spent in accordance with the restriction of donors and other external entities. The final category, “Unrestricted”, is available to the institution for any lawful purpose of the College.

The largest component of “Capital Assets” is the College’s investment in buildings and other real estate improvements, \$23,949,194. The buildings owned by Hill College are only 33% depreciated, which is an indication of the age of the facilities. Most buildings are relatively new and are in good repair. The \$703,483 decrease in “Capital Assets” from FY17 to FY18 was due primarily to \$985,848 depreciation, net of \$311,116 in capital acquisitions (\$35,827 library books and \$275,289 equipment), and \$31,932 construction in progress. There was also \$180,679 of library books and equipment disposals as well as leasehold improvements written off. The \$734,206 decrease in “Capital Assets” from FY18 to FY19 was due primarily to \$994,988 depreciation, net of \$221,421 in capital acquisitions (\$25,453 library books and \$195,968 equipment), and \$39,361 construction in progress. There were also \$32,572 of library books disposals written off.

The \$1,686,817 decrease in “Current Liabilities” for FY18 when compared to FY17 is the result of liquidating students Title IV funds into their student account prior to August 31, 2017. This process normally happens in September. The fall 2018 student financial aid vouchers were also processed and paid to the bookstore prior to August 31, 2018, which reduced current liabilities as of August 31, 2018. FY19 current liabilities continued to decline when compared to the previous year due to Hill College remitting the final bond payment of \$480,000 in May 2019. The \$9,260,500 increase in noncurrent liabilities FY17 compared to FY18 and the \$4,075,887 increase in FY19 compared to FY18 is the result of implementing GASB 75 for Other Postemployment Benefit (OPEB) liabilities.

It is important to note that current liabilities are only 33% of current assets. This is an indication of the college’s ability to meet its short-term obligations as they come due and still have resources available for any unforeseen contingency.

In FY18 there was a \$10,918,515 decrease in “Total Net Position”, and in FY19 there was a \$38,358 decrease, total revenue over total expenditures as reflected in the Schedule A (Revenue) and Schedule B (Expense) as well as the “Statement of Revenues, Expense and Changes in Net Position”. However, when adjusted for the impact of GASB 68 pension liability and GASB 75 Other Postemployment Benefit (OPEB) liability, there is an increase in “Unrestricted Net Position, Exclusive of Plant Assets and Plant-Related Debt” of \$2,139,346 in FY18 and \$1,241,408 in FY19.

The College’s financial position is strong and stable as reflected in Exhibit 1 once it is adjusted for the impact of GASB 68 and GASB 75, as reflected in the above statement of Net Position. Unrestricted net position is critical to support the College’s overall mission; therefore, it is important that unrestricted net position be adequately maintained. The College has not been required to use these resources to fund operations.

For additional information on “Statement of Net Position” refer to “Notes to the Financial Statements”.

**Statement of Revenues, Expenses and Changes in Net Position**  
Condensed Statement of Revenues, Expenses and Changes in Net Position

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Operating Revenues:			
Tuition and fees (net of discounts)	\$ 4,662,749	\$ 4,027,857	\$ 3,997,896
Federal grants and contracts	171,125	158,901	163,300
State grants and contracts	292,229	292,034	436,530
Non-governmental grants and contracts	1,990,751	1,428,069	1,384,522
Auxiliary enterprises (net of discounts)	653,280	603,901	714,106
Other operating revenues	191,723	164,955	207,424
<b>Total Operating Revenues</b>	<u>7,961,857</u>	<u>6,675,717</u>	<u>6,903,778</u>
Operating Expenses:			
Instruction	10,506,665	9,357,010	8,346,118
Public Service	-	-	-
Academic support	2,244,785	2,233,630	1,975,079
Student services	2,577,433	2,403,841	1,915,242
Institutional support	5,011,564	4,393,038	5,638,327
Operation and maintenance of plant	2,325,473	2,591,004	2,164,120
Scholarships and fellowships	2,489,208	3,411,216	3,639,919
Auxiliary enterprises	1,261,920	1,113,889	1,303,882
Depreciation	994,988	985,849	989,127
<b>Total Operating Expenses</b>	<u>27,412,036</u>	<u>26,489,477</u>	<u>25,971,814</u>
<b>Operating Loss</b>	<u>(19,450,179)</u>	<u>(19,813,760)</u>	<u>(19,068,036)</u>
Non-Operating Revenues (Expenses):			
State Appropriations	8,774,129	8,946,913	8,423,241
Maintenance ad valorem taxes	1,879,627	1,731,729	1,667,152
Branch campus maintenance tax	3,614,881	3,392,444	3,319,879
Federal revenue, non-operating	4,528,025	5,533,256	5,764,434
Gifts	402,037	895,476	115,785
Investment income	254,224	162,073	97,686
Interest on capital-related debt	(7,586)	(22,377)	(38,389)
Loss on disposal of capital assets	-	(55,863)	-
Other non-operating revenues	(75,404)	24,739	212,882
<b>Net Non-Operating Revenues</b>	<u>19,369,933</u>	<u>20,608,390</u>	<u>19,562,670</u>
<b>Income Before Other Revenues (Expenses)</b>	<u>(80,246)</u>	<u>794,630</u>	<u>494,634</u>
Other Revenues (Expenses):			
Additions to permanent endowments	41,888	50,724	68,933
<b>Increase (Decrease) in Net Position</b>	<u>(38,358)</u>	<u>845,354</u>	<u>563,567</u>
Net Position, Beginning of Year, as Previously Reported	24,738,795	35,657,310	35,093,743
Cumulative Effect of Change in Accounting Principle	-	(11,763,869)	-
Net Position, Beginning of Year, as Restated	<u>24,738,795</u>	<u>23,893,441</u>	<u>35,093,743</u>
<b>Net Position at End of Year</b>	<u>\$ 24,700,437</u>	<u>\$ 24,738,795</u>	<u>\$ 35,657,310</u>

The “Statement of Revenues, Expenses and Changes in Net Position” presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or non-operating. Generally speaking, operating revenues or expenditures are those earned or incurred by the institution from its normal activity of carrying out its mission of providing educational programs to the citizens of its service area.

The College is primarily dependent upon three sources of revenue: state appropriations; tuition and fees; and property taxes. Since state appropriations and property taxes are classified as Non-Operating Revenues (per GASB), Texas community colleges will generally display an operating deficit before taking into

account other support. Therefore, total revenues and total expenses should be considered in assessing the change in the College’s financial position.

The operating revenue reported in the “Statement of Revenues, Expenses and Changes in Net Position” is derived from the activity reported in Schedule A “Schedule of Operating Revenues”.

The Operating expenses reported in the “Statement of Revenues, Expenses and Changes in Net Position” are derived from the activity reported in Schedule B “Schedule of Operating Expenses by Object”.

The utilization of capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

The FY18 decrease of \$228,061 in “Operating Revenue” was the result of the loss of several small grants and reduced auxiliary revenue due to a smaller number of students living in College housing. The FY19 increase in “Operating Revenue” of \$1,286,140 was the result of \$634,892 increase in “tuition and fees, net of discounts”. There was a \$562,682 increase in “non-governmental grants and contracts” due to a timing issue with the grants. There was a \$10 per semester credit hour increase in tuition effective fall 2018. There was a \$1,045,720 increase in “Net Non-Operating Revenue” in FY18 which was the result of a \$523,672 increase in state appropriations and a \$820,583 gift from the Hill College Foundation. While the Hill College Foundation normally makes gifts to the college on an annual basis, the \$820,583 gift in FY18 was unusually large. The FY19 decrease of \$1,238,457 in “Net Non-Operating Revenue” was the result of a \$493,439 reduction in gifts from our foundation (the FY18 gift was unusually large) and a \$1,005,231 reduction in “Federal revenue, non-operating”. The increase in “Operating Expense” is primarily the result of 3% employee raises in FY18 and in FY19.

For additional information on “Statement of Revenues, Expenses and Changes in Net Position” refer to “Notes to the Financial Statements”.

### Statement of Cash Flows

#### Condensed Statement of Cash Flows

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Cash Flows from			
Operating Activities	\$ (12,910,263)	\$ (17,900,313)	\$ (17,534,965)
Noncapital Financing Activities	16,749,062	17,409,613	17,703,203
Capital and Related Financing Activities	(398,981)	(23,761)	(718,319)
Investing Activities	<u>(1,205,057)</u>	<u>(1,907,674)</u>	<u>(1,682,291)</u>
Net Increase in Cash and Cash Equivalents	2,234,761	(2,422,135)	(2,232,372)
Cash at Beginning of Year	<u>5,608,654</u>	<u>8,030,789</u>	<u>10,263,161</u>
Cash at End of Year	<u>\$ 7,843,415</u>	<u>\$ 5,608,654</u>	<u>\$ 8,030,789</u>

The “Statement of Cash Flows” is a detailed analysis of the change in cash and cash equivalents that occurred during the year. This statement consists of five components.

**(1) Cash Flows from Operating Activities**

This section deals with the change in cash due to the normal operating activity of the institution. Refer to the net income or loss recorded in the “Statement of Revenues, Expenses and Changes in Net Position”.

**(2) Cash Flows from Noncapital Financing Activities**

For Hill College this is a combination of state appropriated funds, property tax revenue, and receipts from non-operating federal revenues.

**(3) Cash Flows from Capital and Related Financing Activities**

This deals with the change in cash due to acquisition or disposition of capital assets and with payments on capital debt and leases.

**(4) Cash Flows from Investing Activities**

This reflects cash flows resulting from investing activities.

**(5) Reconciliation of Operating Income (Loss) to Net Cash used by Operating Activities**

This section reconciles the net change in cash with the operating income (loss) reported in the “Statement of Revenues, Expenses, and Changes in Net Position”. This reconciliation is necessary because of changes that may affect cash without having a corresponding effect on revenue or expense, for example: changes in accounts receivable, accounts payable, deferred revenue, etc. Items that may affect revenue or expense without affecting cash, such as depreciation, also create a need for this reconciliation.

For additional information on “Statement of Cash Flows” refer to “Notes to the Financial Statements”.

**Capital Asset and Debt Administration**

Hill College made its final bond payment May 2019 and is currently debt free.

For additional information concerning Capital Assets and Debt Administration, see Note 2, 5, 6, 7, and 9.

**Discussion of Currently Known Facts, Decisions, or Conditions**

Hill College currently maintains an A2 bond rating with Moody’s Investors Services.

The dual credit tuition and fees rate remains frozen at the 14/15 rate.

A tuition and fees increase in FY20 or FY21 is not anticipated.

Hill College has solicited bids for the construction of a Career Education Center on the Hill County Campus. Construction is anticipated to begin in spring 2020.

## **FINANCIAL STATEMENTS**

	<u>2019</u>	<u>2018</u>
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and Cash Equivalents	\$ 7,606,350	\$ 3,850,225
Short Term Investments	7,307,312	7,398,481
Accounts Receivable (Net)	2,852,140	5,382,058
Deferred Charges	531,592	533,539
Prepaid Expenses	197,914	153,590
<b>Total Current Assets</b>	<b><u>18,495,308</u></b>	<b><u>17,317,893</u></b>
<b>Noncurrent Assets</b>		
Restricted Cash and Cash Equivalents	237,065	1,758,429
Restricted Investments	699,554	-
Endowment Investments	959,781	106,079
Deferred Charges	335	335
Capital Assets, (Net) (Note 5)	25,845,404	26,579,610
<b>Total Noncurrent Assets</b>	<b><u>27,742,139</u></b>	<b><u>28,444,453</u></b>
<b>Total Assets</b>	<b><u>46,237,447</u></b>	<b><u>45,762,346</u></b>
<b>Deferred Outflows of Resources:</b>		
Deferred Outflows Related to Pensions	2,236,711	861,782
Deferred Outflows Related to OPEB	4,464,204	278,754
<b>Total Deferred Outflows of Resources</b>	<b><u>6,700,915</u></b>	<b><u>1,140,536</u></b>
<b>LIABILITIES</b>		
<b>Current Liabilities:</b>		
Accounts Payable	617,576	410,985
Accrued Liabilities	83,144	95,540
Funds Held for Others	193,226	187,435
Deferred Revenue	5,036,853	5,105,830
Bonds Payable - Current Portion	-	480,000
Net OPEB Liability - Current Portion	182,834	51,136
<b>Total Current Liabilities</b>	<b><u>6,113,633</u></b>	<b><u>6,330,926</u></b>
<b>Noncurrent Liabilities</b>		
Dorm Deposits Payable	75,750	87,375
Bonds Payable	-	3,214
Net Pension Liability	4,196,185	2,325,245
Net OPEB Liability	12,246,559	10,026,773
<b>Total Noncurrent Liabilities</b>	<b><u>16,518,494</u></b>	<b><u>12,442,607</u></b>
<b>Total Liabilities</b>	<b><u>22,632,127</u></b>	<b><u>18,773,533</u></b>
<b>Deferred Inflows of Resources:</b>		
Deferred Inflows Related to Pensions	794,826	1,162,280
Deferred Inflows Related to OPEB	4,810,972	2,228,274
<b>Total Deferred Inflows of Resources</b>	<b><u>5,605,798</u></b>	<b><u>3,390,554</u></b>
<b>NET POSITION</b>		
Invested in Capital Assets, Net of Related Debt	25,845,404	26,096,396
Restricted for:		
Nonexpendable		
Student Aid	1,726,972	1,688,740
Expendable		
Student Aid	(37,815)	(404,023)
Debt Service	-	555,925
Unrestricted	(2,834,124)	(3,198,243)
<b>Total Net Position (Schedule D)</b>	<b><u>\$ 24,700,437</u></b>	<b><u>\$ 24,738,795</u></b>

Hill College Foundation  
 Exhibit 1-A  
 Statement of Financial Position  
 August 31, 2018 and August 31, 2017

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and Cash Equivalents	\$ 412,167	\$ 170,553
Investments	612,170	593,335
<b>Total Current Assets</b>	<b><u>1,024,337</u></b>	<b><u>763,888</u></b>
<b>Noncurrent Assets:</b>		
Receivables-restricted	262,452	299,047
Investments-restricted	6,251,605	6,570,993
Capital Assets, net of accumulated depreciation	1,179,694	1,179,694
<b>Total Noncurrent Assets</b>	<b><u>7,693,751</u></b>	<b><u>8,049,734</u></b>
<b>Total Assets</b>	<b><u>8,718,088</u></b>	<b><u>8,813,622</u></b>
 <b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
<b>Current Liabilities:</b>		
Accounts Payable	15,021	5,972
<b>Total Current Liabilities</b>	<b><u>15,021</u></b>	<b><u>5,972</u></b>
 <b>NET ASSETS</b>		
Invested in Capital Assets	1,179,694	1,179,694
Restricted for:		
Expendable:		
Wallace Campus and Programs of Hill College	5,630,632	5,859,796
Hill College Capital Projects	746,351	663,163
Nonexpendable:		
Endowments for Hill College Scholarships	516,886	503,538
Unrestricted	629,504	601,459
<b>Total Net Assets</b>	<b><u>8,703,067</u></b>	<b><u>8,807,650</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 8,718,088</u></b>	<b><u>\$ 8,813,622</u></b>

Hill College  
Exhibit 2  
Statement of Revenues, Expenses, and Changes in Net Position  
Years Ended August 31, 2019 and August 31, 2018

	<u>2019</u>	<u>2018</u>
<b>Operating Revenues</b>		
Tuition and Fees (net of discounts of \$5,096,287 and \$5,001,462, respectively)	\$ 4,662,749	\$ 4,027,857
Federal Grants and Contracts	171,125	158,901
State Grants and Contracts	292,229	292,034
Non-Governmental Grants and Contracts	1,990,751	1,428,069
Auxiliary Enterprises (net of discounts)	653,280	603,901
General Operating Revenues	<u>191,723</u>	<u>164,955</u>
<b>Total Operating Revenues (Schedule A)</b>	<b>7,961,857</b>	<b>6,675,717</b>
<b>Operating Expenses</b>		
Instruction	10,506,665	9,357,010
Public Service	-	-
Academic Support	2,244,785	2,233,630
Student Services	2,577,433	2,403,841
Institutional Support	5,011,564	4,393,038
Operation and Maintenance of Plant	2,325,473	2,591,004
Scholarships and Fellowships	2,489,208	3,411,216
Auxiliary Enterprises	1,261,920	1,113,889
Depreciation	<u>994,988</u>	<u>985,849</u>
<b>Total Operating Expenses (Schedule B)</b>	<b>27,412,036</b>	<b>26,489,477</b>
<b>Operating Loss</b>	<b>(19,450,179)</b>	<b>(19,813,760)</b>
<b>Non-Operating Revenues (Expenses)</b>		
State Appropriations	8,774,129	8,946,913
Maintenance Ad Valorem Taxes	1,879,627	1,731,729
Branch Campus Maintenance Tax	3,614,881	3,392,444
Federal Revenue, Non Operating	4,528,025	5,533,256
Gifts	402,037	895,476
Investment Income	254,224	162,073
Interest on Capital Related Debt	(7,586)	(22,377)
Loss on Disposal of Capital Assets	-	(55,863)
Other Non-Operating Revenues (Expenses)	<u>(75,404)</u>	<u>24,739</u>
<b>Net Non-Operating Revenues (Schedule C)</b>	<b>19,369,933</b>	<b>20,608,390</b>
<b>Income Before Other Revenues (Expenses)</b>	<b>(80,246)</b>	<b>794,630</b>
<b>Other Revenues (Expenses)</b>		
Additions to Permanent and Term Endowments	<u>41,888</u>	<u>50,724</u>
<b>Total Other Revenues</b>	<b>41,888</b>	<b>50,724</b>
<b>Increase in Net Position</b>	<b>(38,358)</b>	<b>845,354</b>
<b>Net Position</b>		
Net Position - Beginning of Year	24,738,795	35,657,310
Cumulative Effect of Change in Accounting Principal	-	(11,763,869)
Net Position, Beginning of Year, as Restated	<u>24,738,795</u>	<u>23,893,441</u>
<b>Net Position - End of Year</b>	<b>\$ 24,700,437</b>	<b>\$ 24,738,795</b>

The accompanying notes are an integral part of the financial statements.

**Hill College Foundation**  
**Exhibit 2-A**  
**Statement of Activities**  
**Years Ended August 31, 2018 and August 31, 2017**

	<u>2018</u>	<u>2017</u>
<b>Operating Revenues:</b>		
Interest and Dividends	\$ 193,028	\$ 196,838
Gain/(Loss) on Sale of Securities	333,587	(29,314)
Unrealized Gain/(Loss)	186,911	313,819
Farm and Lease Revenue	112,982	41,906
Other Miscellaneous Revenue	30,855	14,280
	<u>857,363</u>	<u>537,529</u>
<b>Total Operating Revenue</b>	<b>857,363</b>	<b>537,529</b>
<b>Operating Expenses:</b>		
Contribution to Hill College	835,604	111,400
Investment Management Fees	106,467	103,694
Legal Fees	3,237	3,751
Accounting Fees	3,092	3,355
Property Taxes	6,772	6,400
Insurance	4,945	4,944
Other Operating Expenses	1,829	5,750
	<u>961,946</u>	<u>239,294</u>
<b>Total Operating Expenses</b>	<b>961,946</b>	<b>239,294</b>
<b>Increase in Net Assets</b>	<b>(104,583)</b>	<b>298,235</b>
Net Assets, Beginning of Year	<u>8,807,650</u>	<u>8,509,415</u>
<b>Net Assets, End of Year</b>	<b><u>\$ 8,703,067</u></b>	<b><u>\$ 8,807,650</u></b>

Hill College  
Exhibit 3  
Statement of Cash Flows  
Years Ended August 31, 2019 and August 31, 2018

	<u>2019</u>	<u>2018</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts from students and other customers	\$ 4,944,192	\$ 2,481,638
Receipts from grants and contracts	5,283,587	2,301,476
Payments to suppliers for goods and services	(7,360,598)	(6,069,281)
Payments to or on behalf of employees	(13,473,091)	(13,353,964)
Payments for scholarships	(2,489,208)	(3,411,216)
Other receipts	184,855	151,034
<b>Net cash used by operating activities</b>	<b><u>(12,910,263)</u></b>	<b><u>(17,900,313)</u></b>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>		
Receipts from state appropriations	6,710,739	6,716,401
Receipts from nonoperating federal revenues	4,528,025	5,533,256
Receipts from ad valorem taxes	5,494,508	5,124,173
Receipts from student organizations and other agency transactions	116,711	103,395
Payments to student organizations and other agency transactions	(113,242)	(148,333)
Gifts for other than capital purposes	98,422	116,048
Other payments	(86,101)	(35,327)
<b>Net cash provided by noncapital financing activities</b>	<b><u>16,749,062</u></b>	<b><u>17,409,613</u></b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Receipts from gifts	345,503	830,152
Purchases of capital assets	(260,782)	(343,049)
Payments on capital debt - principal	(480,000)	(545,000)
Payments on capital debt - interest	(14,400)	(30,750)
Other receipts	10,698	64,886
<b>Net cash used by capital and related financing activities</b>	<b><u>(398,981)</u></b>	<b><u>(23,761)</u></b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of investments	(2,345,537)	(2,500,000)
Sale of investments	1,062,784	514,112
Interest on investments	77,696	78,214
<b>Net cash provided (used) by investing activities</b>	<b><u>(1,205,057)</u></b>	<b><u>(1,907,674)</u></b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>2,234,761</b>	<b>(2,422,135)</b>
Cash and cash equivalents - September 1	5,608,654	8,030,789
<b>Cash and cash equivalents - August 31</b>	<b><u>\$ 7,843,415</u></b>	<b><u>\$ 5,608,654</u></b>
<b>Reconciliation of net operating loss to net cash provided (used)</b>		
<b>by operating activities:</b>		
Operating loss	\$ (19,450,179)	\$ (19,813,760)
Adjustments to reconcile operating loss to net cash used		
by operating activities:		
Depreciation expense	994,988	985,849
Payments made directly by state for benefits	2,063,390	2,230,512
Changes in assets and liabilities:		
Receivables (net)	2,537,676	(2,001,303)
Prepaid expenses	(44,324)	94,174
Accounts payable	186,170	192,263
Deferred revenue	(77,220)	265,950
Deferred charges	879,236	146,002
<b>Net cash used by operating activities</b>	<b><u>\$ (12,910,263)</u></b>	<b><u>\$ (17,900,313)</u></b>

**Hill College**  
Notes to Financial Statements  
August 31, 2019 and 2018

**1. Reporting Entity**

The authorization to establish Hill College was issued in 1921 by the Attorney General of the State of Texas under the name of Hillsboro Junior College. The College first enrolled students in September of 1923. Hillsboro Junior College operated continuously until July of 1950 when it closed after an attempt to establish a countywide college system failed. The college lay dormant for eleven years during which time the charter was protected from forfeiture through the efforts of the late Senator Crawford Martin of Hillsboro. On March 3, 1962, a bond issue was passed for the purpose of building a new campus. The college opened for business in September of 1962 under a new name, Hill Junior College. The new college district was expanded by the voluntary annexation of five Hill County school districts other than the original Hillsboro school district. In 1974, the college opened an extension center in Cleburne, Texas, located in Johnson County. In 1997 and 1998, the citizens of eight Johnson County school districts approved a local maintenance and operation tax for the purpose of supporting the branch campus of Hill College in Johnson County. The Hill Junior College District is considered to be a special purpose, primary government according to the definition in Governmental Accounting Standards Board (GASB) Statement 14. While the College receives funding from local, state, and federal sources, and must comply with the spending, reporting, and record keeping requirements of these entities, it is not a component unit of any other governmental entity.

**2. Summary of Significant Accounting Policies**

**Reporting Guidelines**

The significant accounting policies followed by the College in preparing these financial statements are in accordance with the *Texas Higher Education Coordinating Board's Annual Financial Reporting Requirements for Texas Public Community Colleges*. The College applies all applicable GASB pronouncements. The College is reported as a special-purpose government engaged in business-type activities.

**Tuition Discounting**

*Texas Public Education Grants*

Certain tuition amounts are required to be set aside for use as scholarships by qualifying students. This set aside, called the Texas Public Education Grant (TPEG), is shown with tuition and fee revenue amounts as a separate set aside amount (Texas Education Code 56.0333). When the award is used by the student for tuition and fees, the amount is recorded as a tuition discount. If the amount is dispersed directly to the student, the amount is recorded as a scholarship expense.

*Title IV, Higher Education Act Program Funds*

Certain Title IV HEA Program funds are received by the college to pass through to the student. When the amount is used by the student for tuition and fees, the amount is recorded as a tuition discount. If the amount is dispersed directly to the student, the amount is recorded as a scholarship expense.

*Other Tuition Discounts*

The college awards tuition and fee scholarships from institutional funds to students who qualify. When these amounts are used for tuition and fees, the amount is recorded as tuition discount. If the amount is dispersed directly to the student, the amount is recorded as a scholarship expense.

**Hill College**  
Notes to Financial Statements  
August 31, 2019 and 2018

**Basis of Accounting**

The financial statements of the College have been prepared on the accrual basis, whereby all revenues are recorded when earned and all expenses are recorded when they have been reduced to a legal or contractual obligation to pay.

**Budgetary Data**

Each community college district in Texas is required by law to prepare an annual operating budget of anticipated revenues and expenditures for the fiscal year beginning September 1. The College's Board of Regents adopts the budget, which is prepared on the accrual basis of accounting. A copy of the approved budget and subsequent amendments must be filed with the Texas Higher Education Coordinating Board, Legislative Budget Board, Legislative Reference Library, and Governor's Office of Budget and Planning by December 1. For the years ended August 31, 2019 and 2018, Board policy requires the College maintain a minimum of current assets in excess of current liabilities in an amount that equals at least 25 percent of the total current funds budgeted expenditures. For the years ended August 31, 2019 and August 31, 2018, respectively, the minimum unrestricted fund balance to be maintained was \$6,098,224 and \$5,781,898. The College exceeded this minimum required fund balance for both years.

**Cash and Cash Equivalents**

The College's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

**Deferred Outflows**

In addition to assets, the College is aware the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. Governments are only permitted to report deferred outflows in circumstances specifically authorized by the GASB. A typical deferred outflow for community colleges is a deferred charge on a refunding debt.

**Investments**

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, the College reports investments at fair value. Fair values are based on published market rates. Short-term investments have an original maturity greater than three months but less than one year at time of purchase. The governing board has designated public funds investment pools comprised of \$5,202,252 and \$5,075,649 at August 31, 2019 and August 31, 2018 to be short-term investments. Long-term investments have an original maturity of greater than one year at the time of purchase.

**Capital Assets**

The college records capital assets at cost at the date of acquisition or fair value at the date of donation. For equipment, the College's capitalization policy includes all items with a unit cost of \$5,000 or more and an estimated useful life in excess of one year. Renovations of \$100,000 to

**Hill College**  
Notes to Financial Statements  
August 31, 2019 and 2018

building, infrastructure and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are charged to operating expense in the year in which the expense is incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 50 years for buildings, 20 years for land improvements, 15 years for library books, 10 years for furniture, machinery, vehicles and other equipment and 5 years for telecommunications and peripheral equipment.

**Other Post-Employment Benefits (OPEB)**

The fiduciary net position of the Employees Retirement System of Texas (ERS) State Retirement Health Plan (SRHP) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes, for purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to other post-employment benefits; OPEB expense; and information about assets, liabilities and additions to/deductions from SRHP's fiduciary net position. Benefit payments are recognized when due and are payable in accordance with the benefit terms.

**Pensions**

The College participates in the Teacher Retirement System of Texas (TRS) pension plan, a multiple-employer cost sharing defined benefit pension plan with a special funding situation. The fiduciary net position of TRS has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes, for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities and additions to/deductions from TRS's fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**Deferred Revenue**

Tuition and fees of \$4,145,285 and \$4,165,940 and dorm rental and food service fees of \$480,900 and \$537,465 have been reported as deferred revenues at August 31, 2019 and 2018, respectively.

**Deferred Inflows**

In addition to liabilities, the College is aware the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so is not recognized as an inflow of resources (revenue) until that time. Governments are permitted only to report deferred inflows in circumstances specifically authorized by the GASB.

**Hill College**  
Notes to Financial Statements  
August 31, 2019 and 2018

**Estimates**

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, the College is aware actual results could differ from those estimates.

**Operating and Non-Operating Revenue and Expense Policy**

The College distinguishes operating revenues and expenses from non-operating items. The College reports as a BTA and as a single, proprietary fund. Operating revenues and expenses generally result from providing services in connection with the College's principal ongoing operations. The principal operating revenues are tuition and related fees. The major non-operating revenues are state appropriations and property tax collections. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. The operations of the bookstore and cafeteria are not performed by the College.

**Prior Year Restatement**

In the year of implementation of GASB 75, a restatement of beginning net position will be required for the recording of the beginning net OPEB liability and for the recording of deferred outflows of resources for contributions made after the measurement date of the beginning OPEB liability and beginning of the College's fiscal year.

Beginning net position as of September 1, 2017 has been restated as follows for the implementation of GASB Statement 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.

Beginning Net Position	\$ 35,657,310
Prior Period Adjustment-Implementation of GASB 75:	
Net OPEB Liability (Measurement Date as of August 31, 2017)	(12,040,958)
Deferred Outflows - College Contributions Made During FY 2016	<u>277,089</u>
Beginning Net Position, as Restated	<u>\$ 23,893,441</u>

**3. Authorized Investments**

Hill College is authorized to invest in obligations and instruments as defined in the Public Funds Investment Act (Sec. 2256.001 Texas Government Code). Such investments include (1) obligations of the United States or its agencies, (2) direct obligations of the State of Texas or its agencies, (3) obligations of political subdivisions rated not less than A by a national investment rating firm, (4) certificates of deposit, and (5) other instruments and obligations authorized by statute.

The Board of Regents of Hill College has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act of 1995 (Chapter 2256, Texas Government Code). The investments of the College are in compliance with the Regent's investment policies. In addition, there were no instances of non-compliance with regards to the Public Funds Investment Act.

**Hill College**  
Notes to Financial Statements  
August 31, 2019 and 2018

**4. Deposits and Investments**

Cash and Deposits included on Exhibit 1, Statement of Net Position, consist of the items reported below:

**Cash and Deposits**

	<u>2019</u>	<u>2018</u>
Bank Deposits		
Demand Deposits	\$ 7,791,842	\$ 4,157,967
Time Deposits	47,833	1,446,997
	<u>7,839,675</u>	<u>5,604,964</u>
Cash and Cash Equivalents		
Petty Cash on Hand	<u>3,740</u>	<u>3,690</u>
Total Cash and Deposits	<u>\$ 7,843,415</u>	<u>\$ 5,608,654</u>

Reconciliation of Deposits and Investments to Exhibit 1:

<b>Type of Security</b>	<b><u>Market Value</u></b> <b><u>August 31, 2019</u></b>	<b><u>Market Value</u></b> <b><u>August 31, 2018</u></b>
Total Cash and Deposits	\$ 7,843,415	\$ 5,608,654
Certificate of Deposit	2,312,995	2,428,911
Investment Pools	5,202,252	5,075,649
Equity/Stock Mutual Funds	959,781	-
Short-Term Mutual Funds	487,550	-
Money Market Mutual Funds	<u>4,069</u>	<u>-</u>
Total Investments	\$ 8,966,647	\$ 7,504,560
<b>Total Deposits and Investments</b>	<b><u>\$ 16,810,062</u></b>	<b><u>\$ 13,113,214</u></b>
Cash and Cash Equivalents (Exhibit 1)	7,606,350	3,850,225
Restricted Cash and Cash Equivalents (Exhibit 1)	237,065	1,758,429
Short Term Investments (Exhibit 1)	7,307,312	7,398,481
Restricted Investments (Exhibit 1)	699,554	106,079
Endowment Investments (Exhibit 1)	<u>959,781</u>	<u>-</u>
<b>Total Deposits and Investments (Exhibit 1)</b>	<b><u>\$ 16,810,062</u></b>	<b><u>\$ 13,113,214</u></b>

**Hill College**  
Notes to Financial Statements  
August 31, 2019 and 2018

As of August 31, 2019, the District had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>			
		<u>Less than 1</u>	<u>1 to 2</u>	<u>Greater than 2</u>	<u>N/A</u>
Certificates of Deposit	\$ 2,312,995	\$ 2,312,995	\$ -	\$ -	\$ -
Investment Pools	5,202,252	5,202,252	-	-	-
Equity/Stock Mutual Funds	959,781	-	-	486,020	473,761
Short-Term Mutual Funds	487,550	487,550	-	-	-
Money Market Mutual Funds	4,069	4,069	-	-	-
<b>Total Fair Value</b>	<b>\$ 8,966,647</b>	<b>\$ 8,006,866</b>	<b>\$ -</b>	<b>\$ 486,020</b>	<b>\$ 473,761</b>

**Interest Rate Risk** – In accordance with state law and District policy, the District does not purchase any investments with maturities greater than 10 years.

**Credit Risk** – In accordance with state law and the District’s investment policy, investments in mutual funds and investment pools must be rated at least AAA, commercial paper must be rated at least A-1 or P-1, and investments in obligations from other states, municipalities, counties, etc. must be rated at least A.

**Concentration of Credit Risk** – The District does not place a limit on the amount the District may invest in any one issuer. None of the District’s investments are in FNMA, FHLB or similar investments.

**Hill College**  
Notes to Financial Statements  
August 31, 2019 and 2018

**5. Capital Assets**

Capital assets activity for the year ended August 31, 2019 was as follows:

	<b>Balance September 1, 2018</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance August 31, 2019</b>
<u>Not Depreciated:</u>				
Land	\$ 393,110	\$ -	\$ -	\$ 393,110
Collections	28,907	-	-	28,907
Construction in Progress	31,932	39,361	-	71,293
Subtotal	<u>453,949</u>	<u>39,361</u>	<u>-</u>	<u>493,310</u>
<u>Buildings and Other Capital Assets:</u>				
Buildings and Building Improvements	33,534,503	-	-	33,534,503
Other Real Estate Improvements	2,396,478	-	-	2,396,478
Total Buildings and Other Real Estate Improvements	35,930,981	-	-	35,930,981
Library Books	862,143	25,453	32,572	855,024
Furniture, Machinery, and Equipment	4,699,320	195,968	-	4,895,288
Total Buildings and Other Capital Assets	<u>41,492,444</u>	<u>221,421</u>	<u>32,572</u>	<u>41,681,293</u>
<u>Accumulated Depreciation:</u>				
Buildings and Building Improvements	10,585,688	570,911	-	11,156,599
Other Real Estate Improvements	737,184	88,004	-	825,188
Total Buildings and Other Real Estate Improvements	11,322,872	658,915	-	11,981,787
Library Books	616,277	35,642	32,572	619,347
Furniture, Machinery, and Equipment	3,427,634	300,431	-	3,728,065
Total Accumulated Depreciation	<u>15,366,783</u>	<u>994,988</u>	<u>32,572</u>	<u>16,329,199</u>
Net Capital Assets	<u>\$ 26,579,610</u>	<u>\$ (734,206)</u>	<u>\$ -</u>	<u>\$ 25,845,404</u>

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Capital assets activity for the year ended August 31, 2018 was as follows:

	<b>Balance September 1, 2017</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance August 31, 2018</b>
<u>Not Depreciated:</u>				
Land	\$ 393,110	\$ -	\$ -	\$ 393,110
Collections	28,907	-	-	28,907
Construction in Progress	-	31,932	-	31,932
Subtotal	<u>422,017</u>	<u>31,932</u>	<u>-</u>	<u>453,949</u>
<u>Buildings and Other Capital Assets:</u>				
Buildings and Building Improvements	33,610,215	-	75,712	33,534,503
Other Real Estate Improvements	<u>2,396,478</u>	<u>-</u>	<u>-</u>	<u>2,396,478</u>
Total Buildings and Other Real Estate Improvements	36,006,693	-	75,712	35,930,981
Library Books	886,598	35,827	60,282	862,143
Furniture, Machinery, and Equipment	<u>4,468,716</u>	<u>275,289</u>	<u>44,685</u>	<u>4,699,320</u>
Total Buildings and Other Capital Assets	<u>41,362,007</u>	<u>311,116</u>	<u>180,679</u>	<u>41,492,444</u>
<u>Accumulated Depreciation:</u>				
Buildings and Building Improvements	10,033,174	571,593	19,079	10,585,688
Other Real Estate Improvements	<u>649,180</u>	<u>88,004</u>	<u>-</u>	<u>737,184</u>
Total Buildings and Other Real Estate Improvements	10,682,354	659,597	19,079	11,322,872
Library Books	638,997	37,562	60,282	616,277
Furniture, Machinery, and Equipment	<u>3,179,580</u>	<u>288,689</u>	<u>40,635</u>	<u>3,427,634</u>
Total Accumulated Depreciation	<u>14,500,931</u>	<u>985,848</u>	<u>119,996</u>	<u>15,366,783</u>
Net Capital Assets	<u>\$ 27,283,093</u>	<u>\$ (642,800)</u>	<u>\$ 60,683</u>	<u>\$ 26,579,610</u>

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**6. Noncurrent Liabilities**

Noncurrent liability activity for the year ended August 31, 2019 was as follows:

	<b>Balance September 1, 2018</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance August 31, 2019</b>	<b>Current Portion</b>
Bonds:					
Revenue Bonds	\$ 480,000	\$ -	\$ 480,000	\$ -	\$ -
Unamortized Bond Premium	3,214	-	3,214	-	-
Subtotal	483,214	-	483,214	-	-
Net Pension Liability	2,325,245	1,870,940	-	\$ 4,196,185	N/A
Net OPEB Liability	10,077,909	2,351,484	-	12,429,393	182,834
Total Noncurrent Liabilities	<u>\$ 12,886,368</u>	<u>\$ 4,222,424</u>	<u>\$ 483,214</u>	<u>\$ 16,625,578</u>	<u>\$182,834</u>

Noncurrent liability activity for the year ended August 31, 2018 was as follows:

	<b>Balance September 1, 2017</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance August 31, 2018</b>	<b>Current Portion</b>
Bonds:					
Revenue Bonds	\$ 1,025,000	\$ -	\$ 545,000	\$ 480,000	\$480,000
Unamortized Bond Premium	7,500	-	4,286	3,214	-
Subtotal	1,032,500	-	549,286	483,214	480,000
Net Pension Liability	2,611,232	-	285,987	\$ 2,325,245	N/A
Net OPEB Liability	-	11,763,869	1,685,960	10,077,909	51,136
Total Noncurrent Liabilities	<u>\$ 3,643,732</u>	<u>\$11,763,869</u>	<u>\$2,521,233</u>	<u>\$ 12,886,368</u>	<u>\$531,136</u>

**7. Debt Obligations**

Hill College had no debt obligations as of August 31, 2019.

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**8. Bonds Payable**

General information related to bonds payable is summarized below:

Revenue Refunding Bonds, Series 2012:

To refund Series 1998, 2000, and 2002 bonds  
Issued June 1, 2012  
\$3,550,000; all authorized bonds have been issued  
\$0 outstanding balance

The building use fee for the availability of the administration building and the fine arts building, the library use fee, the net revenues of the cafeteria and the bookstore, and dormitory rental fees are obligated toward the retirement of indebtedness.

Transfers are to be made from the Special Revenue Bond Fund to the Special Revenue Bond Interest and Sinking Fund, and the Special Revenue Bond Reserve Fund. For the year ended August 31, 2019, the College was in compliance with all significant covenants and restrictions that are contained in the various bond indentures.

**9. Advanced Refunding Bonds**

On April 17, 2012, the Board approved the sale of \$3,550,000 Revenue Refunding Bonds, Series 2012. The sale closed and funds were received on June 12, 2012 with an average coupon rate of 2.79%. Proceeds from the sale totaling \$3,683,705 were used to refund all of the College's outstanding bonded indebtedness (Revenue Bonds Series 1998, 2000 and 2002) to achieve debt service savings and to pay costs of \$70,000 related to the issuance of the bonds. The Revenue Bond Series 1998, 2000, and 2002 are considered fully defeased and the liability for those bonds has been removed from the Plant Fund. Advanced refunding of these bonds reduced the College's debt service payments over the next 9 years by approximately \$300,318. An economic gain (the difference between net present values of the old and new debt service payments) of \$260,885 was achieved by the refunding.

**10. Employees' Retirement Plan**

The State of Texas has joint contributory retirement plans for almost all its employees.

**Teacher Retirement System of Texas – Defined Benefit Pension Plan**

*Plan Description.* Hill College participates in a cost-sharing multiple-employer defined benefit pension plan that has a special funding situation. The Plan is administered by the Teacher Retirement System of Texas (TRS). The TRS's defined benefit pension plan is established and administered in accordance with the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under Section 401(a) of the Internal Revenue Code. The Texas Legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution. The pension's Board of Trustees does not have the authority to establish or amend benefit terms.

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All employees of public, state-supported educational institutions in Texas who are employed for one-half or more of the standard work load and who are not exempted from membership under Texas Government Code, Title 8, Section 822.002 are covered by the system.

**Pension Plan Fiduciary Net Position.** Detail information about the Teacher Retirement System’s fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at [https://www.trs.texas.gov/TRS Documents/cafr\\_2018.pdf](https://www.trs.texas.gov/TRS_Documents/cafr_2018.pdf); by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

**Benefits Provided.** TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, whose formulas use the three highest annual salaries. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member’s age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member’s age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic post-employment benefit changes; including automatic cost of living adjustments (COLA). Ad hoc post-employment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in the Plan description above.

**Contributions.** Contribution requirements are established or amended pursuant to Article 16, section 67 of the Texas Constitution which requires the Texas legislature to establish a member contribution rate of not less than 6% of the member’s annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation paid to members of the system during the fiscal year. Texas Government Code section 821.006 prohibits benefit improvements if, as a result of the particular action, the time required to amortize TRS’ unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

Employee contribution rates are set in state statute, Texas Government Code 825.402. The 85th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2018 and 2019.

Contribution Rates

	<b>2019</b>	<b>2018</b>
Member	7.7%	7.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
FY 2018 College Contributions	\$ 257,186	
FY 2018 State of Texas On-Behalf Contributions	\$ 221,804	
FY 2018 Member Contributions	\$ 546,771	

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The College's contributions to the TRS pension plan in 2019 were \$287,977 as reported in the Schedule of College Contributions in the Required Supplementary Information section of these financial statements. Estimated State of Texas on-behalf contributions for 2019 were \$221,804.

- As the non-employer contributing entity for public education and junior colleges, the State of Texas contributes to the retirement system an amount equal to the current employer contribution rate times the aggregate annual compensation of all participating members of the pension trust fund during that fiscal year reduced by the amounts described below which are paid by the employers.

Public junior colleges or junior college districts are required to pay the employer contribution rate in the following instances:

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member's first 90 days of employment.
- When any part or all of an employee's salary is paid by federal funding sources, a privately sponsored source, or from non-educational and general or local funds.
- When the employing district is a public junior college or junior college district, the employer shall contribute to the retirement system an amount equal to 50% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.
- In addition to the employer contributions listed above, when employing a retiree of the Teacher Retirement System the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.

**Actuarial Assumptions.** The total pension liability in the August 31, 2018 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2017 rolled forward to August 31, 2018
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	6.907%
Long-term Expected Rate	7.25%
Municipal Bond Rate as of August 31, 2018	3.69%*
Last year ending August 31 in Projection	
Period (100 years)	2116
Inflation	2.30%
Salary Increases	3.05% to 9.05% including inflation
Ad Hoc Post-Employment Benefit Changes	None

*\*Source for the rate is the Fixed Income Market Data/Yield Curve/Data Municipal Bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index"*

*Source: Teacher Retirement System of Texas 2018 Comprehensive Annual Financial Report*

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The actuarial methods and assumptions were selected by the board of trustees based upon analysis and recommendations by the system's actuary. The board of trustees has sole authority to determine the actuarial assumptions used for the plan. The actuarial methods and assumptions were primarily based on a study of actual experience for the three-year period ending August 31, 2017 and were adopted in July 2018. There were no changes to the actuarial assumptions or other inputs that affected the measurement of the total pension liability since the prior measurement period. Assumptions, methods, and plan changes were updated from the prior year's report. The net pension liability increased significantly since the prior measurement date due to a change in the following actuarial assumptions:

- The total pension liability as of August 31, 2018 was developed using a roll-forward method from the August 31, 2017 valuation.
- Demographic assumptions including postretirement mortality, termination rates, and rates of retirement were updated based on the experience study performed for TRS for the period ending August 31, 2017.
- Economic assumptions including rates of salary increase for individual participants was updated based on the same experience study.
- The discount rate changed from 8 percent as of August 31, 2017 to 6.907 percent as of August 31, 2018.
- The long-term assumed rate of return changed from 8 percent to 7.25 percent.
- The change in the long-term assumed rate of return combined with the change in the single discount rate was the primary reason for the increase in the net pension liability.

There were no changes of benefit terms that affected measurement of the total pension liability during the measurement period.

**Discount Rate.** The discount rate used to measure the total pension liability was 6.907 percent. The single discount rate was based on the expected rate of return on the pension plan investments of 7.25 percent and a municipal bond rate of 3.69 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on these assumptions, the pension plan's fiduciary net position and future contributions were sufficient to finance the benefit payments until the year 2069. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2069, and the municipal bond rate was applied to all benefit payments after that date. The long-term rate of return on pension plan investments is 7.25 percent. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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Best estimates of geometric real rates of return for each major asset class included in TRS's target asset allocation as of August 31, 2018 are summarized below:

<u>Asset Class</u>	<u>Target Allocation*</u>	<u>Long-Term Expected Arithmetic Real Rate of Return</u>	<u>Expected Contribution to Long-Term Portfolio Returns**</u>
<b>Global Equity</b>			
U. S.	18.00 %	5.70 %	1.04 %
Non-U.S. Developed	13.00	6.90	0.90
Emerging Markets	9.00	8.95	0.80
Directional Hedge Funds	4.00	3.53	0.14
Private Equity	13.00	10.18	1.32
<b>Stable Value</b>			
U. S. Treasuries	11.00	1.11	0.12
Absolute Return	0.00	0.00	0.00
Stable Value Hedge Funds	4.00	3.09	0.12
Cash	1.00	(0.30)	0.00
<b>Real Return</b>			
Global Inflation Linked Bonds	3.00	0.70	0.02
Real Assets	14.00	5.21	0.73
Energy and Natural Resources	5.00	7.48	0.37
Commodities	0.00	0.00	0.00
<b>Risk Parity</b>			
Risk Parity	5.00	3.70	0.18
Inflation Expectation			2.30
Alpha			(0.79)
<b>Total</b>	<u>100.00 %</u>		<u>7.25 %</u>

\*Target allocations are based on the FY2016 policy model.

\*\*The Expected Contribution to Long-Term Portfolio Returns incorporates the volatility drag resulting from the conversion between arithmetic and geometric mean returns.

Source: Teacher Retirement System of Texas 2018 Comprehensive Annual Financial Report

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**Discount Rate Sensitivity Analysis.** The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1 percent less than and 1 percent greater than the discount rate that was used (6.907%) in measuring the 2018 Net Pension Liability.

	1% Decrease in Discount Rate (5.907%)	Discount Rate (6.907%)	1% Increase in Discount Rate (7.907%)
Hill College's proportionate share of the net pension liability:	\$ 6,333,050	\$ 4,196,185	\$ 2,466,267

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.** At August 31, 2019, the College reported a liability of \$4,196,185 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the College. The amount recognized by the College as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the College were as follows:

Hill College's proportionate share of the collective net pension liability	\$ 4,196,185
State's proportionate share that is associated with Hill College	<u>3,626,346</u>
Total	<u>\$ 7,822,531</u>

The net pension liability was measured as of August 31, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The employer's proportion of the net pension liability was based on the employer's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2017 through August 31, 2018.

At the measurement date of August 31, 2018, the employer's proportion of the collective net pension liability was 0.0076235467%, which was an increase of 0.0003513857% from its proportion measured as of August 31, 2017.

For the year ended August 31, 2019, the College recognized pension expense of \$358,912 and revenue of \$358,912 for support provided by the State.

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At August 31, 2019, the College reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual economic experience	\$ 26,156	\$ 102,958
Changes in actuarial assumptions	1,512,927	47,279
Differences between projected and actual investment earnings	218,073	297,692
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	191,578	346,897
Contributions paid to TRS subsequent to the measurement date	287,977	-
Total	<u>\$ 2,236,711</u>	<u>\$ 794,826</u>

The net amounts of the employer's balances of deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended <u>August 31:</u>	Pension Expense <u>Amount</u>
2019	\$ 269,607
2020	102,056
2021	69,484
2022	251,703
2023	283,142
Thereafter	177,916

**Optional Retirement Plan – Defined Contribution Plan**

**Plan Description.** Participation in the Optional Retirement Program is in lieu of participation in the Teacher Retirement System. The optional retirement program provides for the purchase of annuity contracts and operates under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Subtitle C.

**Funding Policy.** Contribution requirements are not actuarially determined but are established and amended by the Texas legislature. The percentages of participant salaries currently contributed by the state and each participant are 3.30% and 6.65%, respectively. The College contributes 3.30% plus an additional 1.0% for employees participating in the optional retirement program. Benefits fully vest after one year plus one day of employment. Because these are individual annuity

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contracts, the state has no additional or unfunded liability for this program. Senate Bill (SB)1812, 83<sup>rd</sup> Texas Legislature, Regular Session, effective September 1, 2013, limits the amount of the state's contribution to 50% of eligible employees in the reporting district.

The retirement expense to the state for the College was \$104,599 and \$107,701 for the fiscal years ended August 31, 2019 and 2018, respectively. This amount represents the portion of expended appropriations made by the State Legislature on behalf of the College.

**Public Agency Retirement System – Defined Contribution Plan**

In addition, the College has established a defined contribution plan for part-time employees called the Public Agency Retirement System (PARS) plan. The PARS plan, as established by the College under the provisions of the Omnibus Budget Reconciliation Act of 1990, requires 5.5% to be deducted from participants' salaries each pay period and contributed to the PARS plan administered by the Union Bank of California. The College also contributes the equivalent of 2% of participants' salaries. Contributions to the PARS plan are immediately 100% vested.

The total payroll for all College employees was \$12,402,306 and \$11,555,871 for fiscal years 2019 and 2018, respectively. The total payroll of employees covered by the Teacher Retirement System was \$7,841,179 and \$7,212,626 for fiscal years 2019 and 2018, respectively. The total payroll of employees covered by the Optional Retirement System was \$3,195,947 and \$3,290,161 for fiscal years 2019 and 2018, respectively. The total payroll of employees covered by the PARS plan was \$958,580 and \$945,100 for fiscal years 2019 and 2018, respectively.

**11. Deferred Compensation Plan**

Under Section 403(b) of the Internal Revenue Code, all employees of the College are eligible to defer from taxable income amounts they choose to contribute to a Tax-Sheltered Annuity (TSA). Authority for this program is granted under Government Code 609.001. The general maximum contribution limit was \$19,000 for tax year 2019 and \$18,500 for tax year 2018, with a make-up provision for individuals fifty years or older of \$6,000 in 2019 and 2018. Twenty-one employees of the College contributed a total of \$148,921 under this plan for the year 2019, and twenty-one employees contributed a total of \$93,999 under this plan for 2018. The College does not contribute to this plan. The deferred compensation program is not included in the basic financial statements because the program's assets are assets of the plan participants and not of the College.

**12. Compensable Absences**

Effective September 1, 2006, full-time employees earn vacation leave of six and two-thirds hours per month for a maximum of eighty hours per year. A maximum of forty hours may be carried over to the next fiscal year. The College recognized the accrued liability for the unpaid vacation leave in the amount of \$51,909 for 2019 and \$51,200 for 2018. Full-time employees earn sick leave of eight hours per month, which can be accumulated up to sixty days maximum. It is paid to an employee who misses work because of illness. Employees who terminate their employment are not entitled to payment for accumulated sick leave. Therefore, the College does not accrue for accumulated sick leave.

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**13. Health Care and Life Insurance Benefits**

Certain health care and life insurance benefits for active employees are provided through an insurance company whose premiums are based on benefits paid during the previous year. The state recognizes the cost of providing these benefits by expending the annual insurance premiums. The state's contribution per full-time employee for HealthSelect of Texas was \$624.82 for employees, \$982.82 for employee and spouse, \$864.52 for employee and child, and \$1,222.52 for employee and family and totaled \$1,269,978 for the year ended August 31, 2019. For the year ended August 31, 2018, the state's contribution per full-time employee for HealthSelect of Texas was \$621.90 for employees, \$978.22 for employee and spouse, \$860.48 for employee and child, and \$1,216.80 for employee and family and totaled \$1,214,595. The cost of providing those benefits for 69 retirees in the year ended 2019 was \$279,645 (retiree benefits for 67 retirees cost \$275,769 for the year ended 2018). For 215 active employees, the cost of providing benefits was \$990,333 for the year ended 2019 (active employee benefits for 210 employees cost \$938,826 for the year ended 2018). S.B. 1812, 83<sup>rd</sup> Texas Legislature, Regular Session, effective September 1, 2013, limits the amount of the state's contribution to 50% of eligible employees in the reporting district.

**14. Other Post-Employment Benefits (OPEB)**

(In accordance with GASB Statement 75)

**Plan Description.** The college participates in a cost-sharing, multiple-employer, other post-employment benefit (OPEB) plan with a special funding situation. The Texas Employees Group Benefits Program (GBP) is administered by the Employees Retirement System of Texas (ERS). The GBP provides certain post-employment health care, life and dental insurance benefits to retired employees of participating universities, community colleges, and State agencies in accordance with Chapter 1551, Texas Insurance Code. Almost all employees may become eligible for those benefits if they reach normal retirement age while working for the State and retire with at least 10 years of service to eligible entities. Surviving spouses and dependents of these retirees are also covered. Benefit and contribution provisions of the GBP are authorized by State law and may be amended by the Texas Legislature.

**OPEB Plan Fiduciary Net Position.** Detailed information about the GBP's fiduciary net position is available in the separately issued ERS Comprehensive Annual Financial Report (CAFR) which includes financial statements, notes to the financial statements and required supplementary information. That report may be obtained on the Internet at <https://ers.texas.gov/About-ERS/Reports-and-Studies/Reports-on-Overall-ERS-Operations-and-Financial-Management>; or by writing to ERS at: 200 East 18<sup>th</sup> Street, Austin, TX 78701; or by calling (877) 275-4377.

**Benefits Provided.** Retiree health benefits offered through the GBP are available to most State of Texas retirees and their eligible dependents. Participants need at least ten years of service credit with an agency or institution that participates in the GBP to be eligible for GBP retiree insurance. The GBP provides self-funded group health (medical and prescription drug) benefits for eligible retirees under HealthSelect. The GBP also provides a fully insured medical benefit option for Medicare-primary participants under the HealthSelect Medicare Advantage Plan and life insurance benefits to eligible retirees via a minimum premium funding arrangement. The authority under which the obligations of the plan members and employers are established and/or may be amended is Chapter 1551, Texas Insurance Code.

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**Contributions.** Section 1551.055 of Chapter 1551, Texas Insurance Code, provides that contribution requirements of the plan members and the participating employers are established and may be amended by the ERS Board of Trustees. The employer and member contribution rates are determined annually by the ERS Board of Trustees based on the recommendations of ERS staff and its consulting actuary. The contribution rates are determined based on (i) the benefit and administrative costs expected to be incurred, (ii) the funds appropriated, and (iii) the funding policy established by the Texas Legislature in connection with benefits provided through the GBP. The Trustees revise benefits when necessary to match expected benefit and administrative costs with the revenue expected to be generated by the appropriated funds.

The following table summarizes the maximum monthly employer contribution toward eligible retirees' health and basic life premium. Retirees pay any premium over and above the employer contribution. The employer does not contribute toward dental or optional life insurance. Surviving spouses and their dependents do not receive any employer contribution. As the non-employer contributing entity (NECE), the State of Texas pays part of the premiums for the junior and community colleges.

Maximum Monthly Employer Contribution  
Retiree Health and Basic Life Premium  
Fiscal Year 2018

Retiree only	\$	621.90
Retiree & Spouse		1,334.54
Retiree & Children		1,099.06
Retiree & Family		1,811.70

Contributions of premiums to the GBP plan for the current and prior fiscal year by source are summarized in the following table.

Premium Contributions by Source  
Group Benefits Program Plan  
For the Years Ended August 31, 2018 and 2017

	2018	2017
Employers	\$ 307,028,461	\$ 890,735,173
Members (Employees)	\$ 203,123,120	\$ 195,806,162
Nonemployer Contributing Entity (State of Texas)	\$ 16,585,270	\$ 44,433,743

*Source: Employees Retirement System of Texas (ERS) FY2018 Comprehensive Annual Financial Report*

**Actuarial Assumptions.** The total OPEB liability was determined by an actuarial valuation as of August 31, 2018 using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

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Valuation Date	August 31, 2018
Actuarial Cost Method	Entry Age
Amortization Method	Level Percent of Payroll, Open
Remaining Amortization Period	30 Years
Asset Valuation Method	Not applicable
Actuarial Assumptions:	
Discount Rate	3.96%
Projected Annual Salary Increase	2.5% to 9.5%, including inflation
Annual Healthcare Trend Rate	7.3% for FY 2020, 7.4% for FY2021, 7.00% for FY 2022, decreasing .50% per year to an ultimate rate of 4.5% for FY2027 and later years
Inflation Assumption Rate	2.50%
Ad hoc Postemployment Benefit Changes	None

*Source: Employees Retirement System of Texas (ERS) 2018 Comprehensive Annual Financial Report*

Mortality Assumptions:	
Service Retirees, Survivors and Other Inactive Members	Tables based on TRS experience with Ultimate MP Projection Scale from the year 2018
Disability Retirees	Tables based on TRS experience with Ultimate MP Projection Scale from the year 2018 using a 3-year set forward and minimum mortality rates of four per 100 male members and two per 100 female members
Active Member	Sex Distinct RP-2014 Employee Mortality multiplied by 90% with Ultimate MP Projection Scale from the year 2014

*Source: ERS FY18 GASB No. 74 Actuarial Valuation*

Many of the actuarial assumptions used in this valuation were based on the results of actuarial experience studies performed by the ERS and TRS retirement plan actuaries for the period September 1, 2010 to August 31, 2017 for higher education members.

**Investment Policy.** The State Retiree Health Plan is a pay-as-you-go plan and does not accumulate funds in advance of retirement. The System's Board of Trustees adopted the amendment to the investment policy in August 2017 to require that all funds in the plan be invested in short-term fixed income securities and specify the expected rate of return on these investments is 2.4%.

**Discount Rate.** Because the GBP does not accumulate funds in advance of retirement, the discount rate that was used to measure the total OPEB liability is the municipal bonds rate. The discount rate used to determine the total OPEB liability as of the beginning of the measurement year was 3.51%. The discount rate used to measure the total OPEB liability as of the end of the measurement year was 3.96%, which amounted to an increase of .45%. The source of the municipal bond rate was the Bond Buyer Index of general obligation bonds with 20 years to maturity and mixed credit quality. The bonds average credit quality is roughly equivalent to Moody's Investors Service's Aa2 rating and Standard and Poor's Corp's AA rating. Projected cash flows into the plan are equal to projected benefit payments out of the plan. Because the plan operates on a pay-as-you-go basis and is not intended to accumulate assets, there is no long-term

**Hill College**  
Notes to Financial Statements  
August 31, 2019 and 2018

expected rate of return on plan assets and therefore the years of projected benefit payments to which the long-term expected rate of return is applicable is zero years.

**Discount Rate Sensitivity Analysis.** The following schedule shows the impact on the College's proportionate share of the collective net OPEB liability if the discount rate used was 1 percent less than and 1 percent greater than the discount rate that was used (3.96%) in measuring the net OPEB liability.

	1% Decrease in Discount Rate (2.96%)	Discount Rate (3.96%)	1% Increase in Discount Rate (4.96%)
Hill College's proportionate share of the net OPEB liability:	\$ 14,756,584	\$ 12,429,393	\$ 10,667,975

**Healthcare Trend Rate Sensitivity Analysis.** The initial healthcare trend rate is 7.3% and the ultimate rate is 4.5%. The following schedule shows the impact on the College's proportionate share of the collective net OPEB liability if the healthcare cost trend rate used was 1 percent less than and 1 percent greater than the healthcare cost trend rate that was used (7.3%) in measuring the net OPEB liability.

	1% Decrease in Healthcare Cost Trend Rates (6.3% decreasing to 3.5%)	Current Healthcare Cost Trend Rates (7.3% decreasing to 4.5%)	1% Increase in Healthcare Cost Trend Rates (8.3% decreasing to 5.5%)
Hill College's proportionate share of the net OPEB liability:	\$ 10,526,091	\$ 12,429,393	\$ 14,884,661

**OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB.** At August 31, 2019, the College reported a liability of \$12,429,393 for its proportionate share of the ERS's net OPEB Liability. This liability reflects a reduction for State support provided to the College for OPEB. The amount recognized by the College as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the College were as follows:

Hill College's proportionate share of the collective net OPEB liability	\$ 12,429,393
State's proportionate share that is associated with Hill College	12,515,488
Total	<u>\$ 24,944,881</u>

The net OPEB liability was measured as of August 31, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The employer's proportion of the net OPEB liability was based on the employer's contributions to the OPEB plan relative to the contributions of all employers to the plan for the period September 1, 2017 through August 31, 2018.

**Hill College**  
Notes to Financial Statements  
August 31, 2019 and 2018

At the measurement date of August 31, 2018, the employer's proportion of the collective net OPEB liability was .04193772%, which was an increase of .01236033% from its proportion measured as of August 31, 2017.

For the year ended August 31, 2019, the College recognized OPEB expense of \$74,400 and revenue of \$74,400 for support provided by the State.

Changes Since the Prior Actuarial Valuation – Changes to the actuarial assumptions or other inputs that affected measurement of the total OPEB liability since the prior measurement period were as follows:

- Demographic assumptions (including rates of retirement, disability, termination, mortality, and assumed salary increases) for higher education members have been updated to reflect assumptions recently adopted by the trustees from the Teachers Retirement System of Texas.
- Assumed expenses, assumed per capita health benefit costs, and assumed health benefit cost, retiree contribution, and expense trends have been updated to reflect recent experience and its effects on our short-term expectations.
- The percentage of current retirees and their spouses not yet eligible to participate in the HealthSelect Medicare Advantage Plan and future retirees and their spouses who will elect to participate in the plan at the earliest date at which coverage can commence.
- The percentage of future retirees assumed to be married and electing coverage for their spouse have been updated to reflect recent plan experience and expected trends.
- The discount rate assumption was increased from 3.51% to 3.96% to utilize the updated yield or index rate for 20-year, tax-exempt general obligation municipal bonds rated AA/Aa (or equivalent) or higher in effect on the measurement date.

Changes of Benefit Terms Since Prior Measurement Date – The following benefit revisions have been adopted since the prior valuation:

- An increase in the out-of-pocket maximum for both HealthSelect and Consumer Directed HealthSelect for those HealthSelect retirees and dependents for whom Medicare is not primary.

These minor benefit changes have been reflected in the fiscal year 2019 Assumed Per Capita Health Benefit Costs.

**Hill College**  
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At August 31, 2019, the College reported its proportionate share of the ERS plan's collective deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual economic experience	\$ -	\$ 455,373
Changes in actuarial assumptions	-	4,355,599
Differences between projected and actual investment earnings	5,886	-
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	4,338,403	-
Contributions paid to ERS subsequent to the measurement date	119,915	-
Total	<u>\$ 4,464,204</u>	<u>\$ 4,810,972</u>

The net amounts of the employer's balances of deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended <u>August 31:</u>	<u>Pension Expense Amount</u>
2020	\$ (280,441)
2021	(280,441)
2022	(280,441)
2023	116,992
2024	257,648
Thereafter	-

**Hill College**  
Notes to Financial Statements  
August 31, 2019 and 2018

**15. Disaggregation of Receivables and Payables Balances**

**Receivables**

Receivables at August 31, 2019 and 2018 were as follows:

	<u>2019</u>	<u>2018</u>
Student Receivables	\$ 2,749,589	\$ 2,327,337
Taxes Receivables	446,378	437,418
Federal Receivables	1,312,813	4,142,294
State Receivables	-	-
Other Receivables	84,386	92,249
Subtotal	<u>4,593,166</u>	<u>6,999,298</u>
Allowance for doubtful accounts	<u>(1,741,026)</u>	<u>(1,617,240)</u>
Total Receivables	<u>\$ 2,852,140</u>	<u>\$ 5,382,058</u>

**Payables**

Payables at August 31, 2019 and 2018 were as follows:

	<u>2019</u>	<u>2018</u>
Student Payables	\$ 358,969	\$ -
Vendors Payable	258,607	410,985
Total Payables	<u>\$ 617,576</u>	<u>\$ 410,985</u>

**16. Contract and Grant Awards**

Contract and grant awards are accounted for in accordance with the requirements of the AICPA Industry Guide, *Audits of Colleges and Universities*. Revenues are recognized on Exhibit 2 and Schedule A. For federal contract and grant awards, funds expended, but not collected, are reported as Federal Receivables on Exhibit 1. Contract and grant awards that are not yet funded and for which the institution has not yet performed services are not included in the financial statements.

**Hill College**  
Notes to Financial Statements  
August 31, 2019 and 2018

**17. Ad Valorem Tax**

The College's ad valorem property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the district.

At August 31:

	<u>2019</u>	<u>2018</u>
Assessed Valuation of the District	\$ 2,518,395,048	\$ 2,316,640,354
Less: Exemptions	432,190,408	336,808,797
Net Taxable	2,086,204,640	1,979,831,557
Less: Freeze Taxable	357,898,687	338,630,165
Freeze Adjusted Taxable	<u>\$ 1,728,305,953</u>	<u>\$ 1,641,201,392</u>

Authorized Tax Rate per \$100 valuation (current operations-maximum per enabling legislation)	.500000	.500000
Assessed Tax Rate per \$100 valuation (current operations)	.094132	.090183

Taxes levied for the year ended August 31, 2019 and 2018 amounted to \$1,864,558 and \$1,707,850, respectively. This amount includes the actual taxes calculated for disabled persons and persons over 65 up to their individual tax ceilings. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed.

	<u>2019</u>	<u>2018</u>
	<u>Current Operations</u>	<u>Current Operations</u>
Current Taxes Collected	\$ 1,804,301	\$ 1,654,081
Delinquent Taxes Collected	40,560	43,242
Penalties and Interest Collected	34,766	34,406
Total Collections	<u>\$ 1,879,627</u>	<u>\$ 1,731,729</u>

Tax collections for the year ended August 31, 2019 and 2018 were 96.77% and 96.85%, respectively, of the current tax levy. Allowances for uncollectible taxes are based upon historical experience in collecting property taxes. The use of tax proceeds is restricted to maintenance and operations expenditures.

**18. Tax Abatements**

Hill College has entered into a property tax abatement agreement with IKO Southwest, Inc. as authorized under Chapter 312 of the Texas Tax Code. Under this Act, the College is authorized to grant tax abatements to property owners within designated reinvestment zones for the purpose of expanding primary employment within and attracting investment to the zone.

**Hill College**  
Notes to Financial Statements  
August 31, 2019 and 2018

Commencing on or before March 31, 2018 and continuing annually through the next 10 years, IKO will provide written certification to the College confirming that IKO has continued to employ at least forty (40) individuals in FTE jobs. Additionally as a condition to the obligation of Hill College, IKO shall maintain the taxable assessed value of the Taxable Property, as reasonably determined by the Hill County Appraisal District for each calendar year, at not less than \$25,000,000.00.

For a period of ten (10) years, beginning January 1, 2018, Hill College shall annually abate the ad valorem taxes assessed against IKO's Taxable Property, including all components thereof which may be abated under Chapter 312 of the Tax Code, in an amount equal to ninety percent (90%) of the amount IKO would otherwise be required to pay in ad valorem taxes on the Taxable Property.

For the fiscal year ended August 31, 2019, Hill College abated property taxes totaling \$80,414.

**19. Branch Campus Maintenance Tax**

A branch campus maintenance tax that is established by election is levied by the school districts of Alvarado, Cleburne, Godley, Grandview, Joshua, Keene, Rio Vista and Venus. It is levied each October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the districts. Collections are transferred to Hill College to be used for the operation of a Branch Campus at Cleburne.

<u>Independent School District</u>	<u>Collections in Fiscal Year 2019 (including penalties and interest)</u>	<u>Collections in Fiscal Year 2018 (including penalties and interest)</u>
Alvarado	\$ 731,256	\$ 670,017
Cleburne	1,352,129	1,328,141
Godley	178,049	156,267
Grandview	166,244	158,226
Joshua	813,731	744,945
Keene	89,182	82,547
Rio Vista	106,259	95,877
Venus	178,031	156,424
Total	<u>\$ 3,614,881</u>	<u>\$ 3,392,444</u>

**20. Income Taxes**

The College is exempt from income taxes under Internal Revenue Code Section 115, Income of States, Municipalities, Etc., although unrelated business income may be subject to income taxes under Internal Revenue Code Section 511(a)(2)(B), Imposition of Tax on Unrelated Business Income of Charitable, Etc. Organizations. The College had no unrelated business income tax liability for the year ended August 31, 2019 and 2018.

**Hill College**  
Notes to Financial Statements  
August 31, 2019 and 2018

**21. Component Unit**

Hill College Foundation – Discrete Component Unit

Hill College Foundation (the Foundation) was established as a separate nonprofit organization in 1975 for the purpose of providing student scholarships and assistance in the development and growth of the College. Under Governmental Standards Board Statement No. 39, Determining Whether Certain Organizations are Component Units, an organization should report as a discretely presented component unit those organizations that raise and hold economic resources for the direct benefit of a government unit.

Accordingly, the Foundation financial statements are included in the College's annual report as a discrete component unit (see table of contents). Fiscal year 2019 financial statements were not included, as the audit for 2019 was not completed by the date the College's financial statements were audited and submitted. Complete financial statements of the Hill Junior College Development Foundation, Inc. can be obtained from the administrative office of Hill College.

**22. Related Parties**

The Hill College Johnson County Campus Development Foundation, Inc. is a nonprofit organization with the sole purpose of supporting the educational and other activities of the College. Hill College is not obligated to financially support or pay the debt of the foundation nor is it able to significantly influence the policies of this foundation. The foundation solicits donations and acts as coordinators of gifts made by other parties.

**REQUIRED SUPPLEMENTARY INFORMATION (RSI)**

**Hill College**  
**Schedule of Hill College's Proportionate Share of Net Pension Liability**  
**Last Five Fiscal Years\*\***

Fiscal year ending August 31*	2019	2018	2017	2016	2015
College's proportionate share of collective net pension liability (NPL) (%)	0.0076235%	0.0072722%	0.0069101%	0.0079268%	0.0090791%
College's proportionate share of collective net pension liability (\$)	\$ 4,196,185	\$ 2,325,245	\$ 2,611,232	\$ 2,802,018	\$ 2,425,153
State's total proportionate share of NPL associated with College	3,626,346	2,064,195	2,351,637	2,452,737	2,117,111
Total	7,822,531	4,389,440	4,962,869	5,254,755	4,542,264
College's covered payroll amount	\$ 7,841,179	\$ 7,212,626	\$ 6,666,918	\$ 6,200,385	\$ 6,541,689
College's proportionate share of collective NPL as a percentage of covered payroll	53.51%	32.24%	39.17%	45.19%	37.07%

\*The amounts presented above are as of the measurement date of the collective net pension liability

\*\*Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

The accompanying notes are an integral part of the financial statements.

**Hill College**  
**Schedule of Hill College's Contributions for Pensions**  
**Last Five Fiscal Years\*\***

Fiscal year ending August 31*	2019	2018	2017	2016	2015
Legally required contributions	\$ 287,977	\$ 257,186	\$ 238,340	\$ 219,552	\$ 234,602
Actual contributions	287,977	257,186	238,340	219,552	234,602
Contributions deficiency (excess)	-	-	-	-	-
College's covered employee payroll amount	\$ 7,841,179	\$ 7,212,626	\$ 6,666,918	\$ 6,200,385	\$ 6,541,689
Contributions as a percentage of covered employee payroll	3.67%	3.57%	3.57%	3.54%	3.59%

\*The amounts presented above are as of the College's most recent fiscal year-end.

\*\*Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

The accompanying notes are an integral part of the financial statements.

**Hill College**  
**Schedule of Hill College's Proportionate Share of Net OPEB Liability**  
**Employee Retirement System of Texas**  
**State Retiree Health Plan**  
**For the Last Two Fiscal Years\*\***

Fiscal year ending August 31*	2019	2018
College's proportionate share of collective net OPEB liability (%)	0.0419377%	0.0295774%
College's proportionate share of collective net OPEB liability (\$)	\$ 12,429,393	\$ 10,077,909
State's proportionate share of net OPEB liability associated with College	12,515,488	9,808,608
Total	24,944,881	19,886,517
College's covered payroll amount	\$ 10,613,426	\$ 10,780,859
College's proportionate share of collective net OPEB liability as a percentage of covered payroll	117.11%	93.48%

\*The amounts presented above are as of the measurement date of the collective net OPEB liability

\*\*Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

The accompanying notes are an integral part of the financial statements.

**Hill College**  
**Schedule of College's Contributions for OPEB**  
**Employee Retirement System of Texas**  
**State Retiree Health Plan**  
**For the Last Two Fiscal Years\*\***

Fiscal year ending August 31*	2019	2018
Legally required contributions	\$ 119,915	\$ 275,770
Actual contributions	119,915	275,770
Contributions deficiency (excess)	-	-
College's covered employee payroll amount	\$ 10,613,426	\$ 10,780,859
Contributions as a percentage of covered payroll	1.13%	2.56%

\*The amounts presented above are as of the College's most recent fiscal year-end.

\*\*Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

The accompanying notes are an integral part of the financial statements.

**Hill College**  
Notes to Required Supplementary Information (RSI)  
for Pensions  
For the Year Ended August 31, 2019

**1. Changes of Benefit Terms:**

There were no changes of benefit terms for the year ended August 31, 2019

**2. Changes of Assumptions**

Assumptions, methods, and plan changes which are specific to the Pension Trust Fund were updated from the prior year's report. The Net Pension Liability increased significantly since the prior measurement date due to a change in the following assumptions:

- The total pension liability as of August 31, 2018 was developed using a roll-forward method from the August 31, 2017 valuation.
- Demographic assumptions including postretirement mortality, termination rates, and rates of retirement were updated based on the experience study performed for TRS for the period ending August 31, 2017.
- Economic assumptions including rates of salary increase for individual participants was updated based on the same experience study.
- The discount rate changed from 8 percent as of August 31, 2017 to 6.907 percent as of August 31, 2018.
- The long-term assumed rate of return changed from 8 percent to 7.25 percent.
- The change in the long-term assumed rate of return combined with the change in the single discount rate was the primary reason for the increase in the net pension liability.

**Hill College**  
Notes to Required Supplementary Information (RSI)  
for OPEB  
For the Year Ended August 31, 2019

**1. Changes of Benefit Terms:**

The following benefit revisions have been adopted since the prior valuation:

- An increase in the out-of-pocket maximum for both HealthSelect and Consumer Directed HealthSelect for those HealthSelect retirees and dependents for whom Medicare is not primary.

These minor benefit changes have been reflected in the fiscal year 2019 Assumed Per Capita Health Benefit Costs.

**2. Changes of Assumptions**

Changes to the actuarial assumptions or other inputs that affected measurement of the total OPEB liability since the prior measurement period were as follows:

- Demographic assumptions (including rates of retirement, disability, termination, mortality, and assumed salary increases) for higher education members have been updated to reflect assumptions recently adopted by the trustees from the Teachers Retirement System of Texas.
- Assumed expenses, assumed per capita health benefit costs, and assumed health benefit cost, retiree contribution, and expense trends have been updated to reflect recent experience and its effects on our short-term expectations.
- The percentage of current retirees and their spouses not yet eligible to participate in the HealthSelect Medicare Advantage Plan and future retirees and their spouses who will elect to participate in the plan at the earliest date at which coverage can commence.
- The percentage of future retirees assumed to be married and electing coverage for their spouse have been updated to reflect recent plan experience and expected trends.
- The discount rate assumption was increased from 3.51% to 3.96% to utilize the updated yield or index rate for 20-year, tax-exempt general obligation municipal bonds rated AA/Aa (or equivalent) or higher in effect on the measurement date.

## **SUPPLEMENTARY SCHEDULES**

Hill College  
Schedule A  
Schedule of Operating Revenues  
Year Ended August 31, 2019 (With Memorandum Totals for the Year Ended August 31, 2018)

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total Educational Activities</u>	<u>Auxiliary Enterprises</u>	<u>2019 Total</u>	<u>2018 Total</u>
Tuition:						
State Funded Credit Courses:						
In-District Resident Tuition	\$ 3,551,074	\$ -	\$ 3,551,074	\$ -	\$ 3,551,074	\$ 3,253,794
Out-of-District Resident Tuition	2,728,425	-	2,728,425	-	2,728,425	2,352,169
Non-Resident Tuition	330,301	-	330,301	-	330,301	338,327
TPEG - Credit (set aside)*	-	400,720	400,720	-	400,720	356,808
State-Funded Continuing Education	95,808	-	95,808	-	95,808	114,660
TPEG - Credit (set aside)*	-	2,621	2,621	-	2,621	3,750
Non-State Funded Continuing Education	12,795	-	12,795	-	12,795	6,376
<b>Total Tuition</b>	<b>6,718,403</b>	<b>403,341</b>	<b>7,121,744</b>	<b>-</b>	<b>7,121,744</b>	<b>6,425,884</b>
Fees:						
Out of District Fee	937,795	-	937,795	-	937,795	910,619
General Fees	302,546	-	302,546	-	302,546	316,459
Student Service Fee	-	-	-	343,298	343,298	336,848
Building Use Fee	-	-	-	840,133	840,133	822,897
Laboratory Fee	213,520	-	213,520	-	213,520	216,612
<b>Total Fees</b>	<b>1,453,861</b>	<b>-</b>	<b>1,453,861</b>	<b>1,183,431</b>	<b>2,637,292</b>	<b>2,603,435</b>
Scholarship Allowances and Discounts:						
Remissions and Exemptions - State	-	-	-	(277,613)	(277,613)	(226,533)
Title IV Federal Grants	(2,122,007)	-	(2,122,007)	-	(2,122,007)	(2,176,722)
TPEG Awards	(338,970)	-	(338,970)	-	(338,970)	(353,206)
Other State Grants	(75,773)	-	(75,773)	-	(75,773)	(74,372)
Other Local Grants	(2,281,924)	-	(2,281,924)	-	(2,281,924)	(2,170,629)
<b>Total Scholarship Allowances</b>	<b>(4,818,674)</b>	<b>-</b>	<b>(4,818,674)</b>	<b>(277,613)</b>	<b>(5,096,287)</b>	<b>(5,001,462)</b>
<b>Total Net Tuition and Fees</b>	<b>3,353,590</b>	<b>403,341</b>	<b>3,756,931</b>	<b>905,818</b>	<b>4,662,749</b>	<b>4,027,857</b>
Additional Operating Revenues:						
Federal Grants and Contracts	22,100	149,025	171,125	-	171,125	158,901
State Grants and Contracts	-	292,229	292,229	-	292,229	292,034
Non-Governmental Grants and Contracts	-	1,990,751	1,990,751	-	1,990,751	1,428,069
General Operating Revenues	191,723	-	191,723	-	191,723	164,955
<b>Total Additional Operating Revenues</b>	<b>213,823</b>	<b>2,432,005</b>	<b>2,645,828</b>	<b>-</b>	<b>2,645,828</b>	<b>2,043,959</b>
Auxiliary Enterprises:						
Residential Life	-	-	-	986,354	986,354	939,617
Less Discounts	-	-	-	(516,356)	(516,356)	(548,861)
Bookstore	-	-	-	77,725	77,725	109,641
Cosmetology	-	-	-	34,333	34,333	22,808
Concessions	-	-	-	71,224	71,224	80,696
<b>Total Net Auxiliary Enterprises</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>653,280</b>	<b>653,280</b>	<b>603,901</b>
<b>Total Operating Revenues</b>	<b>\$ 3,567,413</b>	<b>\$ 2,835,346</b>	<b>\$ 6,402,759</b>	<b>\$ 1,559,098</b>	<b>\$ 7,961,857</b>	<b>\$ 6,675,717</b>
					(Exhibit 2)	(Exhibit 2)

\*In accordance with Education Code 56.033, \$403,341 and \$360,558 for years August 31, 2019 and 2018, respectively, of tuition was set aside for Texas Public Education Grants (TPEG).

Hill College  
Schedule B  
Schedule of Operating Expenses by Object  
Year Ended August 31, 2019 (With Memorandum Totals for the Year Ended August 31, 2018)

	Operating Expenses					2019 Total	2018 Total	
	Salaries and Wages	Benefits		Other Expenses	2019 Total			2018 Total
		State	Local					
<b>Unrestricted - Educational Activities</b>								
Instruction	\$ 7,310,985	\$ -	\$ 994,027	\$ 1,103,414	\$ 9,408,426	\$ 8,177,321		
Public Service	-	-	-	-	-	-		
Academic Support	1,227,101	-	241,828	492,526	1,961,455	1,874,204		
Student Services	1,505,849	-	277,424	326,634	2,109,907	1,876,615		
Institutional Support	1,903,310	-	362,951	2,334,448	4,600,709	3,912,938		
Operation and Maintenance of Plant	290,291	-	104,397	1,919,582	2,314,270	2,539,141		
Scholarships and Fellowships	-	-	-	-	-	-		
<b>Total Unrestricted Educational Activities</b>	<b>12,237,536</b>	<b>-</b>	<b>1,980,627</b>	<b>6,176,604</b>	<b>20,394,767</b>	<b>18,380,219</b>		
<b>Restricted - Educational Activities</b>								
Instruction	\$ 12,344	\$ 1,074,984	\$ -	\$ 10,911	\$ 1,098,239	\$ 1,179,689		
Public Service	-	-	-	-	-	-		
Academic Support	6,499	276,831	-	-	283,330	359,426		
Student Services	80,969	334,631	-	51,926	467,526	527,226		
Institutional Support	3,074	386,276	-	21,505	410,855	480,100		
Operation and Maintenance of Plant	-	11,203	-	-	11,203	51,863		
Scholarships and Fellowships	-	-	-	2,489,208	2,489,208	3,411,216		
<b>Total Restricted Educational Activities</b>	<b>102,886</b>	<b>2,083,925</b>	<b>-</b>	<b>2,573,550</b>	<b>4,760,361</b>	<b>6,009,520</b>		
<b>Total Educational Activities</b>	<b>12,340,422</b>	<b>2,083,925</b>	<b>1,980,627</b>	<b>8,750,154</b>	<b>25,155,128</b>	<b>24,389,739</b>		
<b>Auxiliary Enterprises</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,261,920</b>	<b>1,261,920</b>	<b>1,113,889</b>		
<b>Depreciation Expense - Buildings and</b>								
<b>Other Real Estate Improvements</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>658,916</b>	<b>658,916</b>	<b>659,598</b>		
<b>Depreciation Expense - Equipment and Furniture</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>336,072</b>	<b>336,072</b>	<b>326,251</b>		
<b>Total Operating Expenses</b>	<b>\$12,340,422</b>	<b>\$ 2,083,925</b>	<b>\$ 1,980,627</b>	<b>\$11,007,062</b>	<b>\$27,412,036</b>	<b>\$26,489,477</b>		
				(Exhibit 2)	(Exhibit 2)			

Hill College  
Schedule C  
Schedule of Non-Operating Revenues and Expenses  
Year Ended August 31, 2019 (With Memorandum Totals for the Year Ended August 31, 2018)

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Auxiliary Enterprises</u>	<u>2019 Total</u>	<u>2018 Total</u>
<b>NON-OPERATING REVENUES:</b>					
State Appropriations:					
Education and General State Support	\$ 6,385,613	\$ -	\$ -	\$ 6,385,613	\$ 6,391,275
State Group Insurance	-	1,344,378	-	1,344,378	1,739,513
State Retirement Matching	-	719,012	-	719,012	490,999
Texas Heritage Museum	325,126	-	-	325,126	325,126
<b>Total State Appropriations</b>	<b>6,710,739</b>	<b>2,063,390</b>	<b>-</b>	<b>8,774,129</b>	<b>8,946,913</b>
Maintenance Ad Valorem Taxes	1,879,627	-	-	1,879,627	1,731,729
Branch Campus Maintenance Tax	3,614,881	-	-	3,614,881	3,392,444
Federal Revenue, Non Operating	4,528,025	-	-	4,528,025	5,533,256
Investment Income	202,934	31,613	19,677	254,224	162,073
Gifts	345,902	-	56,135	402,037	895,476
Other Non-Operating Revenue	10,697	-	-	10,697	24,739
<b>Total Non-Operating Revenues</b>	<b>17,292,805</b>	<b>2,095,003</b>	<b>75,812</b>	<b>19,463,620</b>	<b>20,686,630</b>
<b>NON-OPERATING EXPENSES:</b>					
Interest on Capital Related Debt	7,586	-	-	7,586	22,377
Loss on Disposal of Capital Assets	-	-	-	-	55,863
Other Non-Operating Expense	-	-	86,101	86,101	-
<b>Total Non-Operating Expenses</b>	<b>7,586</b>	<b>-</b>	<b>86,101</b>	<b>93,687</b>	<b>78,240</b>
<b>Net Non-Operating Revenues</b>	<b>\$ 17,285,219</b>	<b>\$ 2,095,003</b>	<b>\$ (10,289)</b>	<b>\$ 19,369,933</b>	<b>\$ 20,608,390</b>
				(Exhibit 2)	(Exhibit 2)

Hill College  
Schedule D  
Schedule of Net Position by Source and Availability  
Year Ended August 31, 2019 (With Memorandum Totals for the Year Ended August 31, 2018)

	Detail by Source				Available for Current Operations		
	Unrestricted	Restricted		Capital Assets Net of Depreciation & Related Debt	Total	Yes	No
		Expendable	Non-Expendable				
Current:							
Unrestricted	\$ (7,148,272)	\$ -	\$ -	\$ -	\$ (7,148,272)	\$ (7,148,272)	\$ -
Board Designated	3,778,982	-	-	-	3,778,982	3,778,982	-
Restricted	-	(37,815)	-	-	(37,815)	-	(37,815)
Auxiliary Enterprises	535,166	-	-	-	535,166	535,166	-
Loan	-	-	-	-	-	-	-
Endowment	-	-	1,726,972	-	1,726,972	-	1,726,972
Plant:							
Debt Service	-	-	-	-	-	-	-
Investment in Plant	-	-	-	25,845,404	25,845,404	-	25,845,404
<b>Total Net Position, August 31, 2019</b>	<b>(2,834,124)</b>	<b>(37,815)</b>	<b>1,726,972</b>	<b>25,845,404</b>	<b>24,700,437</b>	<b>(2,834,124)</b>	<b>27,534,561</b>
					(Exhibit1)		
<b>Total Net Position, August 31, 2018</b>	<b>(3,198,243)</b>	<b>151,902</b>	<b>1,688,740</b>	<b>26,096,396</b>	<b>24,738,795</b>	<b>(3,198,243)</b>	<b>27,937,038</b>
					(Exhibit2)		
<b>Net Increase (Decrease) in Net Position</b>	<b>\$ 364,119</b>	<b>\$ (189,717)</b>	<b>\$ 38,232</b>	<b>\$ (250,992)</b>	<b>\$ (38,358)</b>	<b>\$ 364,119</b>	<b>\$ (402,477)</b>
					(Exhibit2)		

**HILL COLLEGE**  
**Schedule E**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended August 31, 2019**

<b>Federal Grantor/ Pass Through Grantor / Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass Through Grantors Number</b>	<b>Expenditures and Pass Through Disbursements</b>
<i>U. S. Department of Education</i>			
Direct Programs:			
Student Financial Aid Cluster			
Federal Supplemental Educational Opportunity Grant	84.007		\$ 78,761
Federal College Work Study Program	84.033		25,740
Federal Pell Grant Program	84.063		4,423,524
Direct Loans	84.268		<u>2,923,761</u>
Total Direct Programs			7,451,786
Pass-Through From:			
Texas Higher Education Coordinating Board			
Carl Perkins Vocational Education-Basic	84.048	184223	149,025
<i>Total U. S. Department of Education</i>			<u><u>7,600,811</u></u>
<b>Total Federal Financial Assistance</b>			<u><u>\$ 7,600,811</u></u>

Notes to Schedule on following page.

**HILL COLLEGE**  
**Schedule E (Continued)**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended August 31, 2019**

**Note 1: Federal Assistance Reconciliation**

Federal Grants and Contracts Revenue per Schedule A	\$ 171,125
Less: Indirect/Administrative Costs Recoveries	(22,100)
Add: Non-Operating Federal Revenue from Schedule C	4,528,025
Total Federal Revenues per Statement of Revenues, Expenses and Changes in Net Position	<u>\$ 4,677,050</u>
Reconciling Item:	
Add: Direct Student Loans	\$ 2,923,761
Total Federal Revenues per Schedule of Expenditures of Federal Awards	<u>\$ 7,600,811</u>

**Note 2: Significant Accounting Policies Used in Preparing the Schedule**

The expenditures included in the schedule are reported for the college's fiscal year. Expenditure reports to funding agencies are prepared on the award period basis. The expenditures reported above represent funds that have been expended by the college for the purposes of the award. The expenditures reported above may not have been reimbursed by the funding agencies as of the end of the fiscal year. Some amounts reported in the schedule may differ from amounts used in the preparation of the basic financial statements. Separate accounts are maintained for the different awards to aid in the observance of limitations and restrictions imposed by the funding agencies. The college has followed all applicable guidelines issued by various entities in the preparation of the schedule.

**HILL COLLEGE**  
**Schedule F**  
**Schedule of Expenditures of State Awards**  
**For the Year Ended August 31, 2019**

<b>Grantor Agency / Program Title</b>	<b>Grant Contract Number</b>	<b>Expenditures</b>
<i>Texas Higher Education Coordinating Board</i>		
TX Educational Opportunity Grant Program		\$ 273,656
Texas College Work Study Program		18,573
<i>Total Texas Higher Education Coordinating Board</i>		<u>292,229</u>
<b>Total State Financial Assistance</b>		<u><u>\$ 292,229</u></u>

Notes to Schedule on following page.

**HILL COLLEGE**  
**Schedule F (Continued)**  
**Schedule of Expenditures of State Awards**  
**For the Year Ended August 31, 2019**

**Note 1: State Assistance Reconciliation**

State Revenues - per Schedule A	
State Grants and Contracts	\$ 292,229
Less: Indirect/Administrative Cost Recoveries	-
<b>Total State Revenues per Schedule of Expenditures of State Awards</b>	<b><u><u>\$ 292,229</u></u></b>

**Note 2: Significant Accounting Policies Used in Preparing the Schedule**

The accompanying schedule is presented using the accrual basis of accounting. See Note 2 to the financial statements for Hill College's significant accounting policies. These expenditures are reported on Hill College's fiscal year. Expenditure reports to funding agencies are prepared on the award period basis.

**AUDITORS' REPORT ON CONTROLS AND COMPLIANCE**



**LOTT, VERNON & COMPANY, P.C.**  
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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH *GOVERNMENT AUDITING STANDARDS***

Board of Regents  
Hill College  
Hillsboro, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Hill College (The "College"), as of and for the years ended August 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated December 20, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the College's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the College's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH *GOVERNMENT AUDITING STANDARDS* (CONTINUED)**

any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, including the Public Funds Investment Act (Chapter 2256, Texas Government Code), noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or the Public Funds Investment Act (Chapter 2256, Texas Government Code).

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the College's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

  
Jett, Newen + Co., P.C.

Temple, Texas  
December 20, 2019



**LOTT, VERNON & COMPANY, P.C.**  
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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE  
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Board of Regents  
Hill College  
Hillsboro, Texas

Report on Compliance for Each Major Federal Program

We have audited Hill College's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2019. The College's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the College's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE  
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE  
(CONTINUED)**

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the College's compliance.

Opinion on Each Major Federal Program

In our opinion, Hill College complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2019.

Report on Internal Control Over Compliance

Management of the College is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the College's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE  
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE  
(CONTINUED)**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Jott, Vernon & Co., P.C.*

Temple, Texas  
December 20, 2019

**HILL COLLEGE**  
**Schedule of Findings and Questioned Costs**  
**August 31, 2019**

I. Summary of Audit Results

**Financial Statements**

1. Type of auditor's report issued: *unmodified*
  
2. Internal control over financial reporting:  
 Material weakness(es) identified? \_\_\_\_\_ yes X no  
 Significant deficiencies identified that are not considered to be material weakness(es)? \_\_\_\_\_ yes X none reported
  
3. Noncompliance material to financial statements noted? \_\_\_\_\_ yes X no

**Federal Awards**

4. Internal control over major programs:  
 Material weakness(es) identified? \_\_\_\_\_ yes X no  
 Significant deficiencies identified that are not considered to be material weakness(es)? \_\_\_\_\_ yes X no
  
5. Type of auditor's report issued on compliance for major programs: *unmodified*
  
6. Any audit findings disclosed that are required to be reported in accordance with section 200.516a of the Uniform Guidance? \_\_\_\_\_ yes X no

7. Identification of major programs:

<u>Name of Federal Programs</u>	<u>Federal CFDA Number</u>
U.S. Department of Education	
Student Financial Aid Cluster:	
SEOG	84.007
Federal College Work Study Program	84.033
Federal Pell Grant Program	84.063
William D Ford Direct Loans	84.268

8. Dollar threshold used to distinguish between type A and type B federal programs: \$750,000

9. Auditee qualified as low-risk auditee for federal single audit? X yes \_\_\_\_\_ no

**HILL COLLEGE**  
**Schedule of Findings and Questioned Costs (Continued)**  
**August 31, 2019**

II. Financial Statement Findings

None.

III. Federal and State Awards Findings and Questioned Costs

None.